Commonwealth of Kentucky
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2003

Ernie Fletcher, Governor

Prepared by:
Finance and Administration Cabinet
Robbie Rudolph, Secretary

Office of the Controller
Edgar C. Ross, Controller

Statewide Accounting Services
Stuart Weatherford, Director

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INTRODUCTORY SECTION

ERNIE FLETCHER
GOVERNOR

OFFICE OF THE SECRETARY
Finance and Administration Cabinet
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ROBBIE RUDOLPH
Secretary

December 23, 2003

The Honorable Ernie Fletcher
Governor, Commonwealth of Kentucky
The Capitol Building
Frankfort, Kentucky 40601

Dear Governor Fletcher:

INTRODUCTION

In accordance with Section 48.800 (3) of the Kentucky Revised Statutes (K.R.S.), it is my pleasure to transmit to you the Comprehensive Annual Financial Report of the Commonwealth of Kentucky for the Fiscal Year Ended June 30, 2003. This report is prepared by the Finance and Administration Cabinet, Office of the Controller, Division of Statewide Accounting Services, which is responsible for the accurate, complete, and fair presentation of the data contained herein. The information presented fully describes the Commonwealth's financial position and results of operations of the primary government and component units for which it is financially accountable. All appropriate disclosures necessary for the reader to gain the maximum understanding of Kentucky's financial affairs are included.

The report is presented in three sections: introductory, financial, and statistical. The introductory section includes the transmittal letters, the 2002 Certificate of Achievement, organizational chart and list of principal officials. The financial section includes: the auditor's report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A) which provides an introduction, overview and analysis to the "Basic Financial Statements"; the Basic Financial Statements, which present the government-wide financial statements and fund financial statements for governmental funds, proprietary funds, fiduciary funds, and component units, together with footnotes to the Basic Financial Statements; Required Supplementary Information other than M D & A, which presents budgetary comparison schedules and information about infrastructure assets; and the supplemental financial data which includes the combining financial statements and schedules. The statistical section includes such items as trend information, debt information and other selected economic and statistical data.

The Reporting Entity and its Services

This report includes all funds, and component units for which the Commonwealth is financially accountable, based on criteria established by the Governmental Accounting Standards Board's Statement 14. The component units which are blended into the Commonwealth's primary government are:

Blended Component Units	
Board of Agriculture	Kentucky Retirement System
Judicial Form Retirement System	Kentucky Savings Bond Authority
Kentucky Asset/Liability Commission	Kentucky Teachers' Retirement System
Kentucky Lottery Corporation	State Property and Buildings Commission
Kentucky Tobacco Settlement Trust Corporation	Turnpike Authority of Kentucky

The Commonwealth's discretely presented component units are:

Discretely Presented Component Units	
Bluegrass State Skills Corporation	Kentucky Council on Post-Secondary Education
Kentucky Access	Kentucky Housing Corporation
Kentucky Agricultural Finance Corporation	Kentucky Infrastructure Authority
Kentucky Center for the Arts Corporation	Kentucky Local Correctional Facilities Construction Authority
Kentucky Economic Development Finance Authority	Kentucky River Authority
Kentucky Educational Savings Plan Trust	Kentucky School Facilities Construction Commission
Kentucky Educational Television Authority	Kentucky State Fair Board
Kentucky Grain Insurance Corporation	Kentucky Community and Technical College System
Kentucky Higher Education Assistance Authority	Eight state supported universities

Additional detailed information pertaining to Commonwealth's component units are located within the Financial Section of this report.

The Commonwealth provides the full range of services contemplated by statute, including economic development, educational and human services, energy and natural resources management, law enforcement, correctional and public protection services, transportation, public improvements, and general legislative, administrative, and judicial services.

ECONOMIC CONDITION AND OUTLOOK

Both the Kentucky and U.S. economies grew rapidly through most of the decade of the 1990s. With the apparent advent of the "new economy" — a phrase used to describe the economic prosperity derived from the Internet and biotechnology— many businesses and economists thought that the era of business cycles was over. This optimism was shattered by the recession of 2001 as real Gross Domestic Product (GDP) went from a growth rate of 4.4% in fiscal year 2000 to 1.8% in 2001 and a tepid 0.8% in 2002.

Fiscal year 2003 can best be described as a period of slow recovery from the sharp downturn of the previous two years. Real GDP grew by 2.7% and industrial output turned mildly positive from a decline of 4.3% in 2002 to 0.2% in 2003.

However, much of the increase in output was from rapid gains in productivity and a slightly increased work-week. Employment continued to decline during 2003. Nonagricultural employment in Kentucky dipped by 0.5%. Manufacturing continues to be a key sector in Kentucky. It accounts for around 15% of all employment and provides much of the high-end wages. Employment in manufacturing declined by 3.4%. Key areas like mining, trade, and transportation also experienced job losses. The only areas that showed gains were in the service-related industries, especially in educational and health services.

The outlook for fiscal year 2004 is much more promising. Not only is U.S. real GDP expected to increase by a robust 3.5%, but employment in Kentucky is forecasted to go up by 0.5%. The job loss in manufacturing, however, is expected to continue as many of the jobs lost during the last three years have located elsewhere and are unlikely to return to Kentucky. The areas that are expected to see growth are business services, educational and health services, as well as trade, transportation, and utilities.

MAJOR INITIATIVES

In March of fiscal year 2003 the General Assembly enacted the Commonwealth's 2002-2004 biennial budget when meeting in Regular Session. Prior to that time, both the Executive and Judicial Branches of government had operated under Spending Plans promulgated at the beginning of the fiscal year as Executive Orders by the Governor and the Chief Justice, respectively. This was unprecedented in Kentucky's history.

The Spending Plans represented a continuation of current levels of activity exclusive of new bond issues and debt-financed construction activity. The March 2003 enactment of Appropriations Bills for the Executive and Judicial Branches covered both fiscal years of the biennium, in large part incorporating actions undertaken under the Spending Plans previously, and approved a significant capital finance program financed with bonds for schools and local water and sewer projects. Moreover, the General Assembly also passed Senate Bill 48 formally appropriating the funds required for expenditures previously approved by the Secretary of the Finance and Administration Cabinet for which the Office of the State Treasurer had "written a check." This measure essentially ratified the actions undertaken in the Executive and Judicial Branch Spending Plans preceding the effective dates of House Bill 269 and House Bill 294, the Executive and Judicial Appropriations Acts, respectively.

The budget enacted by the 2003 Session of the General Assembly effected further reductions in spending authority for most state agencies in both fiscal year 2003 and fiscal year 2004 – with important exceptions, the most significant of which was for elementary and secondary education. This action was taken in recognition of a continued deterioration in state revenue collections as compared with the estimates upon which the Spending Plans had been predicated. Nonetheless, nearing the close of fiscal year 2003, it became clear that even these reduced levels of General Fund revenues would not materialize. And, in fact, the General Fund actual receipts were some $75 million short of the revenue estimate as it had been most recently revised during the 2003 Session.

This shortfall was more than offset by a combination of factors including the enactment of federal fiscal relief legislation by the U.S. Congress that provided Kentucky with $69 million for ongoing General Fund-supported activity (exclusive of Medicaid), as well as administrative cost savings measures that resulted in lapses of unspent General Funds sufficient to close the year with a modest surplus. This surplus of $24 million was credited to the Budget Reserve Trust Fund, which had been appropriated to receive $5 million in fiscal year 2003 by the General Assembly.

In addition to the small surplus, the state General Fund ended the fiscal year with an undesignated fund balance of $138 million – the amount that had been intended in the enacted budget. This ending balance was then appropriated by the legislature for expenditure in the 2004 fiscal year. The administrative savings initiatives had first been set out in an Executive Order in December 2002 by the Governor. These measures entailed reductions in the state workforce largely by attrition and hiring freezes, specified reductions in travel, containment of energy costs, reductions in contracts for services, restrictions on equipment purchases, and other fiscal austerity measures. These administrative savings measures were subsequently incorporated in the Appropriations Bill enacted by the General Assembly and were, in a number of cases, expanded upon.

The state Road Fund ended the fiscal year almost exactly as had been budgeted and estimated in the Spending Plan and the 2003 legislative session. A modest surplus of $23 million attributable largely to lapsed expenditure authority accruing from the administrative savings measures was made available to the Road Fund Surplus Plan. The enacted budget also renewed authorization for the state construction program to continue a policy of "pre-financing" road construction projects. This was intended to "spend down" a multi-year accumulated Road Fund balance in order to hasten completion of projects included in the enacted Six-Year Road Fund program. However, the General Assembly constrained that spending authority by including a budgetary limitation that a targeted $100 million Road Fund balance had to be maintained until such time as a Spending Plan to manage cash flows had been submitted to and approved by the Secretary of the Finance and Administration Cabinet. That review had not yet been finalized by the close of the fiscal year.

FINANCIAL INFORMATION

The Accounting System and Budgetary Controls

The Commonwealth's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Additional discussions of the various funds and how they are reported are located in the Management Discussion and Analysis (MD&A) section of this report.

In developing and operating the Commonwealth's accounting system, emphasis is placed on the adequacy of internal accounting controls. They are designed to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that financial records are reliable for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of internal controls should not exceed the benefits likely to be derived from their use, and that such cost-benefit evaluation requires estimates and judgements by management. All internal control evaluations occur within this framework.

Budgetary control is maintained at the budget unit level, described in the notes to the Required Supplementary Information. Encumbrance accounting is utilized to insure the availability of funding before contracts are finalized. Contracts which result in overruns of available balances, are not released until budget revisions are approved. Outstanding encumbrances for long-term construction projects, in the Transportation Fund and the Capital Projects Fund are reported as reservation of fund balance. Encumbrances in all other funds lapse at the end of the fiscal year.

Debt Administration

The amount of debt service for general bonded debt, the ratio of this amount to total expenditures for general governmental functions, and the amount of debt per capita are useful indicators to citizens, investors, and management regarding the Commonwealth's debt position. The data for 2003 is:

	Debt service (thousands)	Ratio to Total General Governmental Expenditures	Debt Per Capita
General Bonded Debt	$460,256	3.10%	$759

No general obligation bonds were authorized or outstanding at June 30, 2003.

A detailed analysis of the Commonwealth's debt issuance during the fiscal year ended 2003 is presented in Note 15.

Cash Management, Investment and Collateral Policy

The Commonwealth's investments are governed by KRS 42.500 et seq. and KAR Title 200 Chapter 14. The State Investment Commission, comprised of the Governor, the Treasurer, Secretary of the Finance and Administration Cabinet and gubernatorial appointees of the Kentucky Banker's Association, is charged with the oversight of the Commonwealth's investment activities. The Commission is required to meet at least quarterly, and delegates day-to-day investment management to the Office of Financial Management.

At June 30, 2003, the Commonwealth's operating portfolio was approximately $2.73 billion in cash and securities. The composition of investments was as follows: U.S. treasury securities (19%); securities issued by agencies, corporations and instrumentalities of the United States Government, including mortgage backed securities and collateralized mortgage obligations (42%); repurchase agreements collateralized by the aforementioned (13%); municipal securities (5%); and corporate and asset backed securities, including money market securities (21%). The portfolio had a current yield of 1.71% and an effective duration of 1.55 years. Investment income for Fiscal Year 2003 was $149 million versus $221 million the previous fiscal year.

The Commonwealth's investments are categorized into four investment pools: Short-term, Intermediate-term, Long-term and Bond Proceeds Pools. The purpose of these pools is to provide economies of scale that enhance yield, ease administration and increase accountability and control. The Short-term Pool consists primarily of General Fund cash balances and provides liquidity to the remaining pools. The Intermediate-term Pool represents Agency Fund investments,

state held component unit funds and fiduciary fund accounts held for the benefit of others by the Commonwealth. The Long-term Pool invests funds deemed appropriate for the pool where liquidity is not a serious concern. The Bond Proceeds Pool is where bond proceeds for capital construction projects are deposited until expended for their intended purpose.

The Commonwealth engages in selective derivative transactions. These transactions are entered into only with an abundance of caution and for specific hedge applications to minimize yield volatility in the portfolio. The State Investment Commission expressly prohibits the use of margin or other leveraging techniques. The Commonwealth executes a variety of transactions which may be considered derivative transactions, which include: the securities lending program, over-the-counter treasury options, interest rate swaps, mortgage backed securities, collateralized mortgage obligations and asset backed securities.

The Commonwealth has used over-the-counter treasury options since the mid-1980s to hedge and add value to the portfolio of treasury securities. These transactions involve the purchase and sale of put and call options on a covered basis, holding either cash or securities sufficient to meet the obligation should it be exercised. The State Investment Commission limits the total option commitment to no more than twenty percent of the total portfolio of treasury and agency securities. Historically, actual commitments have been less than ten percent of the portfolio.

The Commonwealth has had a securities lending program since the mid-1980s. The Commonwealth is able to enter into either a principal relationship or an agent relationship. In a principal relationship the Commonwealth reverses its treasury and agency securities in exchange for 102% of eligible collateral, marked to market daily. Eligible Collateral is defined as securities authorized for purchase pursuant to KRS 42.500. In an agent program the agent lends the Commonwealth's treasuries and agencies, takes the cash received from the loan and invests it in securities authorized for purchase pursuant to KRS 42.500. The income generated by these transactions is split between the agent and the Commonwealth. At the present time the Commonwealth has entered into an agent agreement that has a guarantee of 10 basis points of the average market value of securities in the program.

On June 20, 2003, the State Investment Commission adopted Resolution 03-03, which amended the Commonwealth's investment policy concerning asset-based interest rate swaps. The change modifies the exposure limits from a $200 million notional amount to a net market value approach, the absolute value of which cannot exceed $50 million for all counter-parties. The Commonwealth engages in asset-based interest rate swaps to better manage its duration and to stabilize the volatility of interest income. As of June 30, 2003, the Commonwealth had no asset-based swap transactions outstanding.

House Bill 5 of the First Extraordinary Session of 1997 was enacted on May 30, 1997. The Bill amended KRS 42.500 to authorize the purchase of additional investment securities with excess funds available for investment. The new classes of investment securities include: United States dollar denominated corporate securities, issued by foreign and domestic issuers, including sovereign and supranatural governments, rated in one of the three highest categories by a nationally recognized rating agency, and asset backed securities rated in the highest category by a nationally recognized rating agency.

KAR Title 200 Chapter 14 provides, among other things that: corporate securities, inclusive of Commercial Paper, Banker's Acceptances and Certificates of Deposit are limited to twenty-five million per issuer and a stated final maturity of five years or less. Money market securities rated A1-P1 or higher are limited to 20% of any investment pool and when combined with corporate and asset backed securities (ABS) must not exceed 25% of any investment pool. United States Agency Mortgage Backed Securities (MBS) and Collateralized Mortgage Obligations (CMO) are also limited to a maximum of 25% of any investment portfolio. ABS, MBS and CMO must have a weighted-average-life of four years or less at time of purchase.

RISK MANAGEMENT

The Division of Risk Management (DRM) provides oversight and coordinates risk management and insurance responsibilities among various state agencies in accordance with KRS 42.0245. For the year ended June 30, 2003, the Division assisted in achieving a cash savings of $478,000 by obtaining lower bids from improved insurance bid specifications and by seeking broader markets. Risk exposures in the amount of $10,000,000 were eliminated for state agencies' properties that were either uninsured or underinsured. The Finance and Administration Cabinet insures property, computers, vehicles, telephones, fidelity bonds, and workers' compensation with a total insurance value $506 million annually for a premium of $285,000.

New risk management initiatives included developing a loss control program for the Administrative Office of the Courts (AOC). Our recommendations for a bonding program for the Court's Master Commissioners will be fully implemented in fiscal year 2004.

Currently, the Commonwealth's two major self-insurance programs include the State Fire and Tornado Insurance Fund for property and casualty coverage; and the State Self-Insurance Fund for Workers' Compensation benefits. The Finance and Administration Cabinet, in accordance with KRS 45A.022, purchases insurance policies to transfer to insurance companies other financial and catastrophic risks for various state agencies. One such coverage is the vehicle liability insurance policy, which insures 8,793 vehicles for an annual premium of $3,114,648.50. As of June 30, 1999, the Commonwealth terminated the self-insured Kentucky Kare program and offered coverage for health benefits through competitive bidding with the private health insurance markets. The Commonwealth expended $628 million for health insurance for the calendar year 2002, covering a group of 225,622 lives.

The State Fire and Tornado Insurance Fund, created in 1936, insures publicly owned buildings and personal property, including computers, against loss from fire, windstorms, hail, explosions, floods and earthquakes. All state agencies are required to secure insurance from the Fund against these perils. Earthquake and flood coverage for all state facilities are available as additional insured perils in the Fund. The Fund, in accordance with KRS 56.070, is comprised of an appropriation level of $5 million combined with premiums charged to state agencies and universities. By statute, the Fund must have a reserve of $5 million at the close of each fiscal year.

Current Annual premiums of $6,795,205 insure $8,448,316,374 in property assets for 6,900 facilities throughout the state. Included in this amount is $825,683,605 in property assets for computers, telephones, fine arts, and other insured assets. All losses are reinsured to limit fund liability to $500,000 for any one loss to each subject risk. The premium for reinsurance is $4,460,450, a 16.2% increase from the previous fiscal year. For the year ended June 30, 2003, the Fund paid 313 claims in the amount of $2,515,479.

The State Self-Insured Workers Compensation Trust Fund, established in 1979, provides workers' compensation coverage for state employees. At June 30, 2003, the State program had assets of $7.2 million and an unreserved accumulated deficit of $87.8 million. Premium income for the fiscal year totaled $21.4 million. The unreserved accumulated deficit increased $9.4 million or 8.9% from the previous fiscal year. The Fund carries reinsurance coverage for large individual or incident claims of $5 million with limits of $10 million. The amount of claims paid for the fiscal year was $18.7 million, which is $6.3 million less than fiscal year 2002. The Transportation Cabinet has a separate self-insured workers' compensation fund for its employees. As of June 30, 2003, the Fund has a claim liability of $22.7 million. Total claim payments for the year were $3.6 million. The fund carries reinsurance coverage for claims exceeding $1 million with limits of $10 million.

OTHER INFORMATION

Independent Audit

The accompanying financial statements have been audited by the Office of the Auditor of Public Accounts of the Commonwealth of Kentucky. Their examination was conducted in accordance with government auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The report of the independent auditor appears elsewhere in this report.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Kentucky for its Comprehensive Annual Financial Report for the year ended June 30, 2002. This is the sixteenth consecutive year the Commonwealth has received this prestigious award.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

The Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA.

Acknowledgments

The preparation of this report could not have been accomplished without the cooperation of all branches and agencies of the Commonwealth. The professionalism demonstrated by the staffs of the Finance and Administration Cabinet's Divisions of Statewide Accounting Services and Printing, as well as the Office of the Auditor of Public Accounts, is especially noteworthy. Their combined dedication made the publication of this report possible.

Respectfully submitted,

R. B. Rudolph, Jr., Secretary
Finance and Administration Cabinet

ERNIE FLETCHER
Governor
ROBBIE RUDOLPH
Secretary

Finance and Administration Cabinet
Office of the Controller
Capitol Annex Building
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Edgar C. Ross
Controller

December 23, 2003

The Honorable Robbie Rudolph
Secretary, Finance and Administration Cabinet
383 New Capitol Annex
Frankfort, Kentucky

Dear Secretary Rudolph:

Pursuant to Section 48.800 (3) of the Kentucky Revised Statutes, the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Kentucky for the fiscal year ended June 30, 2003, is submitted herewith. It contains all funds of the primary government and component units for which it is financially accountable, based on the criteria developed by the Governmental Accounting Standards Board (GASB) Statement 14.

The basis of accounting upon which the report has been prepared complies with accounting principles generally accepted in the United States of America for state governments as prescribed by both GASB and the American Institute of Certified Public Accountants' (AICPA) publication Audits of State and Local Governmental Units.

The information presents fairly and fully discloses the financial position and results of financial operations of the Commonwealth for the reporting period as measured by the financial activity of the various funds. All appropriate disclosures necessary to assist readers in their understanding and evaluation of Kentucky's financial condition have been included in this report.

Respectfully submitted,

Edgar C. Ross, Controller

AN EQUAL OPPORTUNITY EMPLOYER M/F/D

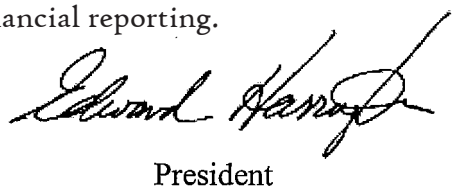
Certificate of Achievement For Excellence in Financial Reporting

Presented to:

Commonwealth of Kentucky

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



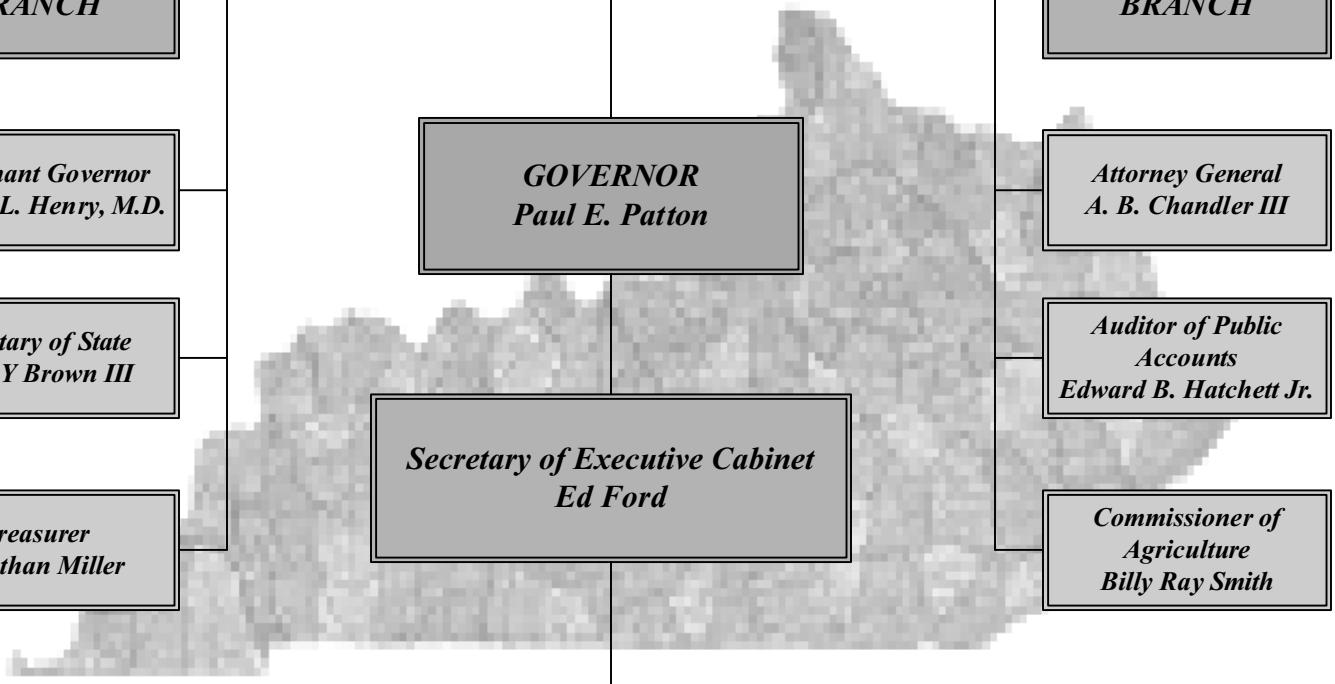
President

Executive Director

COMMONWEALTH OF KENTUCKY

ELECTORATE OF KENTUCKY

"UNITED WE STAND, DIVIDED WE FALL"



EXECUTIVE BRANCH

LEGISLATIVE BRANCH

JUDICIAL BRANCH

GOVERNOR
Paul E. Patton

Lieutenant Governor
Stephen L. Henry, M.D.

Secretary of State
John Y Brown III

Treasurer
Jonathan Miller

Attorney General
A. B. Chandler III

Auditor of Public Accounts
Edward B. Hatchett Jr.

Commissioner of Agriculture
Billy Ray Smith

Secretary of Executive Cabinet
Ed Ford

Families and Children
Viola P. Miller

Governor's Office for Technology
Aldona K. Valicenti

The Adjutant General
MG. D. Allen Youngman

Personnel
Carol M. Palmore

Workforce Development
Willie H. Lile

Economic Development
Marvin E. Strong

Education, Arts and Humanities
Dr. Marlene M. Helm

Finance and Administration
Gordon C. Duke

Health Services
Marcia Morgan

Justice
Ishmon F. Burks, Jr.

Labor
Joe Norsworthy

Natural Resources and Enviromental Protection
Henry C. "Hank" List

Public Protection and Regulation
Janie A. Miller

Revenue
Dana Bynum Mayton

Tourism Development
Ann Latta

Transportation
James C. Codell, III

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FINANCIAL SECTION

EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Independent Auditor's Report

To the People of Kentucky
The Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky, as of and for the year ended June 30, 2003, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of some of the entities that comprise the Commonwealth of Kentucky. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units and funds is based upon the reports of the other auditors. Those entities were:

Certain portions of the Governmental Funds including:

- Debt Service Fund – Turnpike Authority
- Special Revenue Fund – Turnpike Authority

Certain portions of the Proprietary Funds including:

- Kentucky Lottery Corporation
- Within the Insurance Administration Fund:
  - Kentucky Coal Workers' Pneumoconiosis
  - Kentucky Workers' Compensation Special Fund
  - Petroleum Storage Tank Environmental Assurance Program

Certain portions of the Risk Management funds within the Internal Service Funds:

- State Workers' Compensation Program
- Transportation Cabinet's Self-Insured Workers' Compensation Trust Program

Certain Fiduciary Funds including:

- Pension Trust Funds
- Kentucky Affordable Prepaid Tuition Plan
- Kentucky Educational Savings Plan Trust

Component Units:

- Kentucky Council on Postsecondary Education
- Bluegrass State Skills Corporation
- Kentucky Educational Television Authority
- Kentucky Infrastructure Authority
- Kentucky Higher Education Assistance Authority
- Kentucky Local Correctional Facilities Construction Auth.
- Kentucky Housing Corporation
- Kentucky State Fair Board
- Kentucky River Authority
- Kentucky Center for the Arts Corporation
- Kentucky Economic Development Finance Authority

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AN EQUAL OPPORTUNITY EMPLOYER M / F / D

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Component Units - Colleges and Universities:

- University of Kentucky
- Eastern Kentucky University
- Morehead State University
- Northern Kentucky University
- Kentucky Community and Technical College System
- University of Louisville
- Kentucky State University
- Murray State University
- Western Kentucky University

Those financial statements reflect total assets and revenues of the government-wide financial statements and total assets and revenues or additions of the fund financial statements as follows:

Government-Wide Financial Statements:	**Percent of Assets**	**Percent of Revenues**
Primary Government – Governmental Activities	2.37%	0.65%
Primary Government – Business-Type Activities	45.25%	57.14%
Component Units	95.81%	90.32%
Fund Financial Statements:		
Governmental Funds–Non-Major Funds	45.97%	12.01%
Proprietary Funds–Business-Type Activities-Enterprise Funds	45.04%	60.13%
Proprietary Funds–Governmental Activities-Internal Service Funds	3.38%	13.77%
Fiduciary Funds–Pension Trust Funds	100.00%	100.00%
Fiduciary Funds–Private Purpose Funds	100.00%	100.00%
Component Units	95.81%	90.32%

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

The audit report for Eastern Kentucky University and Kentucky State University have not been released as of the date of this report and therefore those financial statements have not been audited. Eastern Kentucky University's and Kentucky State University's financial activities have been included in the basic financial statements as discretely presented component units and represent 2.75% and 0.86% of assets and 4.40% and 1.04% of revenues, respectively, of the Commonwealth's aggregate discretely presented component units.

The Management's Discussion and Analysis on pages 17 through 26, budgetary comparison schedules and corresponding notes on pages 105 through 125, and information about infrastructure assets reported using the modified accrual approach on pages 126 and 127, and claims development information for entity risk pools on page 128, are not required

parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Kentucky's basic financial statements. The combining and individual fund statements and schedules – non-major funds, presented in this report on pages 129 through 176 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Commonwealth of Kentucky. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in the audits performed by other auditors and, in our opinion, based on our audit and the reports of other auditors, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The Introductory and Statistical sections presented in this report on pages 1 through 11 and 177 through 188 are also presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we will also issue our report on our consideration of the Commonwealth of Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

Edward B. Hatchett, Jr.

December 23, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Management's Discussion* and *Analysis* of the Commonwealth of Kentucky's Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2003. It is supplementary information required by the Governmental Accounting Standards Board (GASB) and is intended to provide an easily readable explanation of the information in the basic financial statements. It should be read in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the Commonwealth's financial statements which follow.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Government-Wide Highlights:
The assets of the Commonwealth governmental activities exceeded its liabilities at fiscal year ending June 30, 2003 by $16.3 billion, an increase of $724 million related to current year activity. Liabilities of the Commonwealth's business type activities exceeded assets by $61 million, an increase in net assets of $46 million related to current year activity. Total net assets increased by $770 million to $16.2 billion.

The assets of component units exceeded liabilities at fiscal year ending June 30, 2003 by $3.76 billion, an increase of $83 million related to current year activity.

Fund Highlights:
As of the close of the fiscal year 2003, the Commonwealth's governmental funds reported combined ending fund balances of $2.16 billion, a decrease of $196 million in comparison with the prior year. Of this total amount $690 million was reserved, and the balance of $1.47 billion was unreserved. The unreserved undesignated fund balance of the General Fund was $184 million at June 30, 2003.

Enterprise funds reported net assets of $(61) million, of which $713 million was restricted or invested in capital assets, and the balance of $(774) million was unrestricted.

Long-Term Debt:
The Commonwealth's total long-term debt obligations (bonds and notes payable) decreased by $252 million to $3,234,918 during the current fiscal year. The decrease represents payments of outstanding debt. The Commonwealth's Primary Government issued no new debt during fiscal year 2003. Additional details of these activities begin on page 91.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Commonwealth's basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also includes other required supplementary information (*General and Special Revenue Fund budgetary schedules; condition and maintenance data regarding infrastructure; and claims development information*) and other supplementary information (combining financial statements). Each of these components is described below.

Government-Wide Financial Statements
The *Government-Wide Financial Statements* provide a broad view of the Commonwealth's operations in a manner similar to a private-sector business. These statements report financial information about the entire government except fiduciary activities. The statements provide both short-term and long-term information about the Commonwealth's financial position, which assists in assessing the Commonwealth's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. They take into account all revenues and expenses of the fiscal year even if no cash has been received or paid. The government-wide financial statements include two statements: The *Statement of Net Assets* shows the financial position of the Commonwealth at the end of the fiscal year. The *Statement of Activities* presents information showing how the government's financial position has changed since the beginning of the fiscal year.

Both of the above financial statements have separate sections for three different types of state programs or activities.

These three types of activities are:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with State government fall into this category. Internal Service Fund balances are reported as a part of governmental activities.

Business-Type Activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services provided by the State. The business-type activities of the Commonwealth include the operations of various Enterprise Funds as listed later in the text.

Discretely Presented Component Units – These are operations for which the Commonwealth has financial accountability but they have certain independent qualities as well. More information on the Commonwealth's discretely presented component units can be found in Note 1 on page 56.

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by State law or bond covenants and additional funds are established for management and fiscal control of resources.

The fund financial statements focus on activities of State government. All of the funds of the Commonwealth can be divided into three categories: Governmental Funds, Proprietary Funds, and Fiduciary Funds. It is important to note that these fund categories use different accounting approaches and should be interpreted differently.

Table 1, below, summarizes the major features of the basic financial statements and how they relate to one another.

Table 1. Major Features of the Commonwealth of Kentucky's Government-Wide and Fund Financial Statements

	Government-Wide Financial Statements	Fund Financial Statements		
		Governmental	Proprietary	Fiduciary
Scope	Entire government (except fiduciary funds) and the Commonwealth's component units.	The activities of the Commonwealth that are not proprietary or fiduciary.	Activities of the Commonwealth that are similar to private businesses.	Instances where the Commonwealth is the trustee for someone else's resources.
Required Financial Statements	*Statement of the Net Assets *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Assets *Activities of the Commonwealth that are similar to private businesses.	*Statements of Fiduciary Net Assets *Statement of Changes in Fiduciary Net Assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources measurement	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial, and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of Inflow – Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year and expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Notes to the Financial Statements - Notes to the financial statements provide necessary information to understand the data provided in the government-wide and fund financial statements. They are an integral part of the financial statements and focus on the primary government and its activities.

Required Supplementary Information - In addition to this Management's Discussion and Analysis, which is required supplementary information, the basic financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Other Supplementary Information - Supplementary information includes the introductory section and combining financial statements for non-major governmental funds, non-major discretely presented component units, and the individual internal service funds and fiduciary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

Over time, net assets may serve as a useful indicator of a government's financial position. The Commonwealth's combined net assets (governmental and business-type activities) totaled $16.2 billion at the end of 2003, as compared to $15.4 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets $16.6 billion reflects its investment in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

An additional portion of the Commonwealth's net assets $1.65 billion is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets which, if positive could be used at the Commonwealth's discretion, showed a negative balance of $(2.06) billion. Therefore, no funds were available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities-shown in Note 15 to the financial statements) on the statement of net assets.

Table 2 below presents the Commonwealth's condensed statement of net assets as of June 30, 2002 and June 30, 2003, derived from the government-wide Statement of Net Assets.

Table 2: Condensed Statement of Net Assets (Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2002	2003	2002	2003	2002	2003
Current Assets	$ 2,113,825	$ 2,303,761	$ 720,226	$ 627,240	$ 2,834,051	$ 2,931,001
Capital Assets	17,094,507	17,763,532	235,115	249,449	17,329,622	18,012,981
Other Assets	1,786,505	1,345,234	625,371	568,613	2,411,876	1,913,847
Total Assets	20,994,837	21,412,527	1,580,712	1,445,302	22,575,549	22,857,829
Current Liabilities						
Non Current Liabilities	4,328,066	3,998,777	1,505,471	1,446,270	5,833,537	5,445,047
Other Liabilities	1,120,533	1,143,372	182,111	59,774	1,302,644	1,203,146
Total Liabilities	5,448,599	5,142,149	1,687,582	1,506,044	7,136,181	6,648,193
Invested in Capital Assets Net of Related Debt	15,675,350	16,368,574	234,594	249,023	15,909,944	16,617,597
Restricted	1,524,926	1,189,894	451,761	464,354	1,976,687	1,654,248
Unrestricted	(1,654,038)	(1,288,090)	(793,225)	(774,119)	(2,447,263)	(2,062,209)
Total Net Assets	$ 15,546,238	$ 16,270,378	$ (106,870)	$ (60,742)	$ 15,439,368	$ 16,209,636

Changes in Net Assets

The revenues and expenses information, as shown in Table 3, was derived from the government-wide Statement of Activities and reflects how the Commonwealth's net assets changed during fiscal year 2003. The Commonwealth received program revenues of $7.7 billion and general revenues of $8.1 billion for total revenues of $15.8 billion during Fiscal Year 2003. Expenses for the Commonwealth during Fiscal Year 2003 were $15 billion, which resulted in a total increase of the Commonwealth's net assets in the amount of $770 million, net of contributions, transfers and special items.

Table 3: Condensed Statement of Activities (Expressed in Thousands)

	2002 Governmental Activities	2003 Governmental Activities	2002 Business-Type Activities	2003 Business-Type Activities	2002 Total	2003 Total
Revenues:						
Program Revenues:						
Charges for Services	$ 1,020,507	$ 1,092,148	$ 1,052,261	$ 1,240,234	$ 2,072,768	$ 2,332,382
Operating Grants and Contributions	4,366,372	4,583,434	220,812	210,488	4,587,184	4,793,922
Capital Grants and Contributions	646,847	547,363		1,046	646,847	548,409
General Revenues:						
Income Taxes	3,171,395	3,054,536			3,171,395	3,054,536
Sales Taxes	3,343,082	3,653,535			3,343,082	3,653,535
Property Taxes	450,134	439,129			450,134	439,129
Other Taxes	493,042	581,871			493,042	581,871
Investment Earnings	49,259	10,184		19,251	49,259	29,435
Other	340,718	387,955	6,808	(6,565)	347,526	381,390
Total Revenues	13,881,356	14,350,155	1,279,881	1,464,454	15,161,237	15,814,609
Expenses:						
Governmental Activities:						
General Government	1,945,264	1,949,067			1,945,264	1,949,067
Legislative and Judicial	243,571	247,503			243,571	247,503
Commerce	88,229	80,459			88,229	80,459
Education and Humanities	3,639,130	3,752,426			3,639,130	3,752,426
Human Resources	5,576,596	5,646,075			5,576,596	5,646,075
Justice	611,350	616,236			611,350	616,236
Natural Resources and Environmental Protection	114,496	136,057			114,496	136,057
Public Protection and Regulation	50,798	139,518			50,798	139,518
Transportation	1,093,070	1,062,576			1,093,070	1,062,576
Interest Expense	335,499	227,926			335,499	227,926
Business-type Activities:					0	0
State Parks			84,108	88,423	84,108	88,423
Lottery Corporation			475,020	515,629	475,020	515,629
Kentucky Horse Park			6,715	8,562	6,715	8,562
Insurance Administration			35,438	83,536	35,438	83,536
Unemployment Compensation			612,112	490,348	612,112	490,348
Total Expenses	13,698,003	13,857,843	1,213,393	1,186,498	14,911,396	15,044,341
Increase (Decrease) in Net Assets Before Transfers	183,353	492,312	66,488	277,956	249,841	770,268
Transfers	184,084	231,828	(184,084)	(231,828)		
Change in Net Assets	367,437	724,140	(117,596)	46,128	249,841	770,268
Net Assets, Beginning of Year	15,178,801	15,546,238	10,726	(106,870)	15,189,527	15,439,368
Net Assets, End of Year	$ 15,546,238	$ 16,270,378	$ (106,870)	$ (60,742)	$ 15,439,368	$ 16,209,636

Governmental Activities:

During the fiscal year, the net assets of governmental activities increased by $724 million or 4.6 percent. Approximately 57 percent of the governmental activities' total revenue came from taxes, while 43 percent resulted from grants and contributions (including federal aid). Table 4 below presents program expenses and revenues for governmental activities. Overall, program revenues were insufficient to cover program expenses for governmental activities. The net program expenses of these governmental activities were; therefore, supported by general revenues, mainly taxes.

Table 4: Program Expenses and Revenues for Governmental Activities For Fiscal Year Ended June 30, 2003 (Expressed in Thousands)

State Programs	Program Expenses	Program Revenues	Net Program Expenses (Revenue)
General Government	$ 1,949,067	$ 558,800	$ 1,390,267
Legislative and Judicial	247,503	13,357	234,146
Commerce	80,459	44,381	36,078
Education and Humanities	3,752,426	725,324	3,027,102
Human Resources	5,646,075	3,905,532	1,740,543
Justice	616,236	62,182	554,054
Natural Resources and Environmental Protection	136,057	66,572	69,485
Public Protection and Regulation	139,518	78,184	61,334
Transportation	1,062,576	768,613	293,963
Totals	$ 13,629,917	$ 6,222,945	$ 7,406,972

(a) Net Program Expenses are mainly supported by taxes.

Business-Type Activities:

Table 5 below presents program expenses and revenues for business-type activities. The business-type activities increased the Commonwealth's net assets by $46 million. Program revenues generated by the operations the State Parks and the Horse Park, were insufficient to cover program expenses. General revenues support expenses not covered by Program revenues.

Table 5: Program Expenses and Revenues for Business-Type Activities For Fiscal Year Ended June 30, 2003 (Expressed in Thousands)

State Programs	Program Expenses	Program Revenues	Net Program Expenses (Revenue)
State Parks	$ 88,423	$ 50,077	$ 38,346
Lottery Corporation	515,629	707,769	(192,140)
Kentucky Horse Park	8,562	6,245	2,317
Insurance Administration	83,536	157,109	(73,573)
Unemployment Insurance	490,348	530,568	(40,220)
Totals	**$** 1,186,498	$ 1,451,768	$ (265,270)

(a) Net Program Expenses are mainly supported by taxes.

Overall Analysis

Financial highlights for the State as a whole during fiscal year ended June 30, 2003 include the following:

- The assets of the State's governmental activities exceeded liabilities (net assets) at the close of the fiscal year by $16.3 billion and the liabilities of the State's business-type activities exceeded their assets by $(61) million.
- The State's total net assets increased during the year by $770 million. Net assets of governmental activities increased by $724 million, while net asset of business-type activities increased by $46 million.

FINANCIAL ANALYSIS OF THE COMMONWEALTH'S INDIVIDUAL FUNDS

As of the end of the current fiscal year, the Commonwealth's governmental funds reported combined ending fund balances of $2.16 billion, a decrease of $196 million in comparison with the prior year. Just over two-thirds ($1.47 billion or 68%) of this total amount constitutes unreserved fund balance, which is available for spending in the coming year. The remainder of fund balance is reserved to indicate that it is not available for new spending.

General Fund

The General Fund is the chief operating fund of the Commonwealth. At the end of the current fiscal year, total fund balance reached $298 million, with an unreserved balance of $184 million. This compares to a General Fund unreserved Fund Balance of $(36) million as of June 30, 2002. An unreserved fund balance represents the excess of the assets of the General Fund over its liabilities and reserved fund balance accounts. Reservations of fund balances of governmental funds represent amounts that are not available for appropriation. Examples of fund balance reservations reported include reserves for encumbrances, inventories and capital outlay.

The fund balance of the Commonwealth's general fund increased by $214 million during the current fiscal year. This is a 253 percent increase from the prior year. The increase is the result of spending reduction efforts, lapses of appropriations, and an increased number of interfund transfers-in. The following governmental funds experienced significant changes during the year:

Transportation Fund

Fund balance at June 30, 2003 totaled $439 million, a decrease of $114 million during the fiscal year. The decrease primarily relates to an accelerated program for the construction of road projects.

Capital Projects Fund

Fund balance at June 30, 2003 totaled $335 million, a decrease of $182 million during the fiscal year. The decrease primarily relates to the completion of capital projects.

Proprietary Funds - The Commonwealth's proprietary funds reported net assets of $35 million including $(61) million in the enterprise funds and $96 million in the internal service funds. This is a increase of $55 million from the previous year.

The only proprietary fund to experience significant changes during the year was the Kentucky Lottery Corporation. The Corporation's net assets at June 30, 2003 totaled $67 million, an increase of $18 million during the fiscal year. The increase primarily relates to an increase in market value of the Lottery Corporation investments and acquisition and development of software.

GENERAL FUND BUDGETARY HIGHLIGHTS

With no Legislatively-enacted budget at the beginning of fiscal year 2003, the Governor issued an executive order that set forth a "Spending Plan" under which the Commonwealth operated until March 2003 at which time a budget was enacted. As a result there are only minor differences between the original budget and the final budget. There were no significant differences between the final budget and actual amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2003, amounts to $18.8 billion, with accumulated depreciation of $780 million, leaving a net book value of $18.02 billion. This investment in capital assets includes land, improvements, buildings, equipment, construction in progress, infrastructure and intangibles. Infrastructure assets are normally immovable and of value only to the

Commonwealth, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Commonwealth's investment in capital assets for the current fiscal year was about 4.45 percent in terms of net book value. However, actual expenditures to purchase or construct capital assets were $828 million for the year. Most of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled $83 million. Additional information on the Commonwealth's capital assets can be found in Note 6 of the notes to the financial statements of this report.

Infrastructure Assets – The Commonwealth has elected to utilize the "Modified Approach" option as it relates to guidelines set forth in the GASB (Government Accounting Standards Board), Statement Number 34. Under this alternative method, referred to as the modified approach, the Commonwealth expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for, under the modified approach, include 61,500 lane miles of roads and approximately 8,900 bridges that the Commonwealth has responsibility for maintaining.

- There have been no significant changes in the condition levels of the infrastructure assets.
- The asset condition level established by the Commonwealth has been met and exceeded for the past two years.
- There have been no significant differences between the amounts estimated to be necessary to maintain and preserve infrastructure assets at target condition levels and the actual amounts of expense incurred for that purpose during the current fiscal period.

A more in-depth discussion of the Commonwealth's infrastructure assets is located in the "Required Supplemental Information" section of this report.

Debt Administration - The authority of the Commonwealth to incur debt is described in Article X, Section 25, of the Kentucky Constitution. In 1987, the Commonwealth created the Executive Bond Oversight Commission and the Legislative Bond Oversight Commission. The commissions meet jointly to review all proposed debt issuance. Both commissions must approve each financing plan before obligations are issued. The legislation that created the bond oversight commissions also created the position of Commonwealth Bond Advisor, who advises the commissions and must approve the pricing and fees associated with any debt issuance.

The Commonwealth of Kentucky's bonded debt decreased by $240 million to $3,165,223, a 7% decrease during the current fiscal year. No general obligation bonds were authorized or outstanding at June 30, 2003. The key factor in this decrease was the payment of principal on bonds outstanding and no new bonds were issued during fiscal year 2003.

Additional information on the Commonwealth's long-term debt obligations can be found in Note 15 of the notes to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The unemployment rate for the Commonwealth of Kentucky is currently 5.5 percent, which is a decrease from a rate of 5.6 percent a year ago. This compares to the nation's average unemployment rate of 5.9 percent.

Inflationary trends in the region compare favorably to national indices as well. These factors are considered by legislative leaders and management in preparing the Commonwealth's budget for future years.

The Consensus Forecasting Group revised the original revenue estimate for fiscal year 2004 increasing the General fund estimate by $36.6 million and the Transportation fund by $.7 million. A more comprehensive budgetary dissertation is located in the "Letter of Transmittal - Major Initiatives" section of this report.

As a result of all of the present combined economic factors, the overall economic condition of the Commonwealth is expected to improve.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Commonwealth of Kentucky's finances for all of Kentucky's citizens, taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the Commonwealth's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Commonwealth of Kentucky, Finance and Administration Cabinet, Office of the Controller, 702 Capitol Avenue, Frankfort, KY 40601.

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BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

COMMONWEALTH OF KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2003
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents (Note 5)	$ 504,851	$ 63,824	$ 568,675	$ 828,449
Cash with fiscal agents (Note 5)	22,417		22,417	
Restricted cash (Note 5)	15,385		15,385	
Investments, net of amortization (Note 5)	1,345,234	568,613	1,913,847	1,481,365
Receivables, net (Note 4)	1,656,739	135,323	1,792,062	2,743,295
Notes receivable	25,636		25,636	
Internal balances	4,852	(4,852)		
Inventories	45,960	3,170	49,130	28,300
Prepaid expenses	11,267	853	12,120	4,109
Deferred charges	15,761		15,761	36,729
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents (Note 5)		423,997	423,997	432,128
Capital assets (Note 6):				
Land	96,525	19,403	115,928	136,330
Improvements other than buildings	9,165	72,453	81,618	107,993
Buildings	794,604	184,852	979,456	3,088,069
Machinery and equipment	498,263	56,632	554,895	1,055,682
Other capital assets				45,702
Easements and other intangibles	32,958	2,321	35,279	9,046
Less: Accumulated depreciation and amortization	(629,816)	(150,966)	(780,782)	(2,109,493)
Construction in progress	2,373,438	64,754	2,438,192	269,667
Infrastructure	14,588,395		14,588,395	
Total Capital Assets	17,763,532	249,449	18,012,981	2,602,996
Other assets	893	4,925	5,818	85,246
Total Assets	21,412,527	1,445,302	22,857,829	8,242,617
Liabilities				
Accounts payable (Note 4)	882,862	39,729	922,591	240,517
Tax refunds payable	236,949		236,949	
Accrued liabilities				72
Deferred revenue	23,561	20,045	43,606	148,289
Other liabilities				43,128
Liabilities from restricted assets				12,816
Noncurrent liabilities:				
Due within one year (Note 15)	497,301	191,119	688,420	234,638
Due in more than one year (Note 15)	3,501,476	1,255,151	4,756,627	3,803,605
Total Liabilities	5,142,149	1,506,044	6,648,193	4,483,065
Net Assets				
Invested in capital assets, net of related debt	16,368,574	249,023	16,617,597	1,948,067
Restricted for:				
Debt service	354,836		354,836	333,134
Other purposes (Note 1)	835,058	464,354	1,299,412	897,247
Unrestricted	(1,288,090)	(774,119)	(2,062,209)	581,104
Total Net Assets	$ 16,270,378	$ (60,742)	$ 16,209,636	$ 3,759,552

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

COMMONWEALTH OF KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	$ 1,949,067	$ 276,792	$ 248,557	$ 33,451
Legislative and judicial	247,503	9,755	3,602	
Commerce	80,459	32,247	11,909	225
Education and humanities	3,752,426	8,789	716,535	
Human resources	5,646,075	418,444	3,486,422	666
Justice	616,236	18,631	40,406	3,145
Natural resources and environmental protection	136,057	19,961	46,611	
Public protection and regulation	139,518	71,829	6,355	
Transportation	1,062,576	235,700	23,037	509,876
Interest expense	227,926			
Total Governmental Activities	13,857,843	1,092,148	4,583,434	547,363
Business-Type Activities:				
State Parks	88,423	49,368	43	666
Lottery Corporation	515,629	673,485	34,284	
Kentucky Horse Park	8,562	5,840	25	380
Insurance Administration	83,536	157,109		
Unemployment Compensation	490,348	354,432	176,136	
Total Business-Type Activities	1,186,498	1,240,234	210,488	1,046
Total Primary Government	$ 15,044,341	$ 2,332,382	$ 4,793,922	$ 548,409
Component Units:				
Authorities:				
Kentucky Housing Corporation	$ 223,705	$ 99,120	$ 131,051	$
Kentucky Higher Education Assistance Authority	175,249	64,805	108,011	
Kentucky School Facilities Construction Commission	52,450	69,205		
Universities and Colleges:				
University of Kentucky	1,242,008	566,596	345,829	20,464
University of Louisville	510,672	240,345	92,955	2,286
Kentucky Community and Technical College System	383,632	66,411	145,337	
Other component units	1,034,076	329,638	247,745	4,690
Total Component Units	$ 3,621,792	$ 1,436,120	$ 1,070,928	$ 27,440
General Revenues (Note 1):				
Taxes:				
Sales and gross receipt				
Individual income				
Corporate income				
Property				
License and privilege				
Severance				
Inheritance and estate				
Miscellaneous taxes				
Unrestricted grants and contributions				
Unrestricted investment earnings				
Gain on sale of capital assets				
Miscellaneous general				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets at July 1, as Restated (Note 2)				
Net Assets at June 30				

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Totals	Component Units
$ (1,390,267)	$	$ (1,390,267)	
(234,146)		(234,146)	
(36,078)		(36,078)	
(3,027,102)		(3,027,102)	
(1,740,543)		(1,740,543)	
(554,054)		(554,054)	
(69,485)		(69,485)	
(61,334)		(61,334)	
(293,963)		(293,963)	
(227,926)		(227,926)	
(7,634,898)		(7,634,898)	
	(38,346)	(38,346)	
	192,140	192,140	
	(2,317)	(2,317)	
	73,573	73,573	
	40,220	40,220	
	265,270	265,270	
(7,634,898)	265,270	(7,369,628)	
			$ 6,466
			(2,433)
			16,755
			(309,119)
			(175,086)
			(171,884)
			(452,003)
			(1,087,304)
3,653,535		3,653,535	
2,764,133		2,764,133	
290,403		290,403	
439,129		439,129	
162,929		162,929	
176,300		176,300	
93,553		93,553	
149,089		149,089	
68,721	(5,015)	63,706	151,645
10,184	19,251	29,435	46,151
(73,096)	437	(72,659)	(1,928)
392,330	(1,987)	390,343	974,427
231,828	(231,828)		
8,359,038	(219,142)	8,139,896	1,170,295
724,140	46,128	770,268	82,991
15,546,238	(106,870)	15,439,368	3,676,561
$ 16,270,378	$ (60,742)	$ 16,209,636	$ 3,759,552

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

Major Funds

GENERAL FUND

The General Fund is the State's operating fund and accounts for financial resources appropriated by the General Assembly that are not required to be accounted for in other funds.

TRANSPORTATION FUND

The Transportation Fund accounts for activities related to the construction, preservation, and maintenance of roads.

FEDERAL FUND

The Federal Fund accounts for monies received from the federal government to be spent on specific programs and operations.

AGENCY REVENUE FUND

The Agency Revenue Fund accounts for revenues and expenditures of restricted taxes, fees, and charges related to a particular function or activity. The General Assembly usually appropriates this fund.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for financial resources appropriated by the General Assembly for the acquisition, construction, or renovation of major capital facilities, and for the acquisition of major equipment other than that financed by proprietary funds, certain trust funds, and university and college funds.

Non-Major Funds

Non-Major governmental funds are presented by fund type beginning on page 132

COMMONWEALTH OF KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	General	Transportation	Federal	Agency Revenue	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents (Note 5)	$ 157,900	$ 22,941	$ 48,998	$ 3,086	$ 29,901	$ 239,274	$ 502,100
Cash with fiscal agents (Note 5)						22,417	22,417
Restricted cash (Note 5)		2,300		13,085			15,385
Investments, net of amortization (Note 5)	5,092	352,364		228,393	321,888	404,230	1,311,967
Receivables, net (Note 4)	605,947	98,371	679,225	102,852	31,646	128,514	1,646,555
Notes receivable			13,116	5,984		6,536	25,636
Interfunds receivable (Note 7)	163,947	26,562	90,873	131,754	5,874	301,457	720,467
Interfund loans receivable	1,000	54,693					55,693
Inventories	12,254	28,665	64	1,829		52	42,864
Total Assets	$ 946,140	$ 585,896	$ 832,276	$ 486,983	$ 389,309	$ 1,102,480	$ 4,343,084
Liabilities and Fund Balances							
Liabilities:							
Accounts payable (Note 4)	$ 200,662	$ 64,542	$ 477,673	$ 24,667	$ 27,192	$ 17,478	$ 812,214
Judgements payable	33,802	574		845			35,221
Tax refunds payable	236,949						236,949
Interfunds payable (Note 7)	47,945	58,928	180,661	91,016	664	328,530	707,744
Interfund loans payable			54,114			579	54,693
Deferred revenue	128,445	22,861	79,392	41,240	26,274	35,140	333,352
Total Liabilities	647,803	146,905	791,840	157,768	54,130	381,727	2,180,173
Fund Balances:							
Reserved for:							
Encumbrances		118,326			126,222		244,548
Statutory obligations	102,161	40,471					142,632
Inventories	12,254	28,665	64	1,829		52	42,864
Deposit with fiscal agents				13,085			13,085
Compensating balance with depositories		2,300					2,300
Capital outlay					244,969		244,969
Unreserved, reported in:							
General fund	183,922						183,922
Special revenue funds		249,229	40,372	314,301		365,865	969,767
Debt service fund						354,836	354,836
Capital projects fund					(36,012)		(36,012)
Total Fund Balances	298,337	438,991	40,436	329,215	335,179	720,753	2,162,911
Total Liabilities and Fund Balances	$ 946,140	$ 585,896	$ 832,276	$ 486,983	$ 389,309	$ 1,102,480	$ 4,343,084

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

RECONCILIATION OF THE BALANCE SHEET- GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2003
(Expressed in Thousands)

Total Fund Balances - Governmental Funds		$ 2,162,911
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Land and other non-depreciable assets	89,342	
Buildings, equipment, and other depreciable assets	976,223	
Infrastructure	14,588,395	
Accumulated depreciation	(437,842)	
Construction in progress	2,364,712	17,580,830
Certain revenues are earned but not available, and therefore, are deferred in the funds.		311,188
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		22,057
Internal service funds are used by management to charge the costs of Fleet Management, Computer Services, Central Printing, Prison Industries, Property Management and Risk Management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		95,832
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Capital lease obligations	(19,482)	
Compensated absences	(223,999)	
Judgements and contingencies	(237,193)	
Net pension obligations	(107,365)	(588,039)
Long-term bonded debt is not due and payable in the current period and, therefore, is not reported in the funds. Unamortized premiums, loss on refundings, and interest payable are not reported in the funds; however, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement:		
Bonds payable	(3,165,223)	
Notes payable	(69,695)	
Unamortized premiums and discounts	(20,459)	
Less deferred amounts on refundings	6,360	
Accrued interest payable	(65,384)	(3,314,401)
Net Assets of Governmental Activities		$ 16,270,378

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

COMMONWEALTH OF KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	General	Transportation	Federal	Agency Revenue	Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
Revenues							
Taxes	$ 6,541,629	$ 963,757	$	$ 194,612	$	$ 77,614	$ 7,777,612
Licenses, fees, and permits	25,459	108,396	60	113,585		4,623	252,123
Intergovernmental	136,694	(35)	4,887,976	34,941	17,736	15,766	5,093,078
Charges for services	7,452	22,653	108	443,828		74,185	548,226
Fines and forfeits	49,567	4		7,510		16,610	73,691
Interest and other investment income	10,030	29,270	340	2,564	46,879	44,449	133,532
Increase (decrease) in fair value of investments	(83)	4,769		4,038	3,227	3,663	15,614
Other revenues	144,236	4,330	90,999	165,607	1,229	99,871	506,272
Total Revenues	6,914,984	1,133,144	4,979,483	966,685	69,071	336,781	14,400,148
Expenditures							
Current:							
General government	1,529,206		82,243	91,347		186,447	1,889,243
Legislative and judicial	232,057		3,660	10,988		133	246,838
Commerce	19,115		7,497	31,764		4,110	62,486
Education and humanities	2,972,632		688,784	49,932		41,570	3,752,918
Human resources	1,341,749		3,533,337	748,868		26,085	5,650,039
Justice	458,980		42,973	73,190		94	575,237
Natural resources and environmental protection	58,019		41,824	27,016		8,490	135,349
Public protection and regulation	47,427		5,516	63,719		22,637	139,299
Transportation	6,411	1,064,404	507,790	72,354		44,693	1,695,652
Debt service:							
Principal retirement						260,977	260,977
Interest and fiscal charges						195,126	195,126
Other expenditures						4,153	4,153
Capital outlay:							
Buildings					244,419		244,419
Total Expenditures	6,665,596	1,064,404	4,913,624	1,169,178	244,419	794,515	14,851,736
Excess (Deficiency) of Revenues over (under) Expenditures	249,388	68,740	65,859	(202,493)	(175,348)	(457,734)	(451,588)
Other Financing Sources (Uses)							
Transfers in	436,441	1,645	5,412	430,184	66,059	986,519	1,926,260
Transfers out	(477,788)	(184,601)	(25,726)	(254,776)	(72,553)	(661,526)	(1,676,970)
Capitalized leases	5,856		486	1,250			7,592
Payments to refunded bond escrow agent						(1,567)	(1,567)
Total Other Financing Sources (Uses)	(35,491)	(182,956)	(19,828)	176,658	(6,494)	323,426	255,315
Net Change in Fund Balances	213,897	(114,216)	46,031	(25,835)	(181,842)	(134,308)	(196,273)
Fund Balances at July 1, as Restated (Note 2)	84,501	554,303	(5,582)	354,496	517,021	855,063	2,359,802
Increase (decrease) in inventories	(61)	(1,096)	(13)	554		(2)	(618)
Fund Balances at June 30	$ 298,337	$ 438,991	$ 40,436	$ 329,215	$ 335,179	$ 720,753	$ 2,162,911

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Reconciliation of the Statement of Revenues, Expenditures, Changes in Fund Balance- Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2003
(Expressed in Thousands)

Net change in fund balances-total governmental funds		$	(196,273)
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:			
Assets disposed of, net book value	(78,875)		
Donated assets, fair market value	11,944		
Buildings, equipment, and other depreciable assets	116,507		
Infrastructure	648,395		
Accumulated depreciation	(48,515)		
Construction in progress	18,568		668,024
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			29,824
Certain expenditures are reported in the funds; however, they increase assets reported on the Statement of Net Assets and have been eliminated from the Statement of Activities:			
Prepaid Expenses	6,297		
Inventories	(616)		5,681
Internal service funds are used by management to charge the costs of Fleet Management, Computer Services, Central Printing, Prison Industries, Property Management and Risk Management to individual funds. The net revenues (expense) of certain activities of the internal service funds are reported with governmental activities.			9,872
To eliminate intragovernmental activity.			(21,658)
Certain expenditures are reported in the funds; however, they either increase or decrease long-term liabilities reported on the Statement of Net Assets and have been eliminated from the Statement of Activities.			
Excess contributions to pension funds	(29,349)		
Capital lease payments	7,570		
Compensated absence payments	12,278		
Litigation payments	44,726		35,225
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.			
Repayment of bond principal	251,663		
Payment to refunded bond escrow agent	1,567		
Accrued interest	(57,830)		
Deferred issue costs	(2,714)		
Loss on refundings	759		193,445
Change in net assets of governmental activities		$	724,140

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

PROPRIETARY FUNDS FINANCIAL STATEMENTS

Enterprise Funds (All Major)

STATE PARKS FUND
The State Parks Fund accounts for revenues earned and expenses incurred in the commercial operations of the Department of Parks.

KENTUCKY LOTTERY CORPORATION
The Kentucky Lottery Corporation, empowered by KRS 154A, administers the Kentucky State Lottery and is pursuant to amended section 226 of the Constitution of Kentucky as ratified by voters of the Commonwealth.

KENTUCKY HORSE PARK FUND
The Kentucky Horse Park Fund accounts for revenues earned and expenses incurred in the commercial operations of the Kentucky Horse Park.

INSURANCE ADMINISTRATION FUND
The Insurance Administration Fund accounts for insurance risk pools operated by the state. These include:

Workers' Compensation Fund provides benefits for workers with illnesses, which are not attributable to one employer.
Coal Workers' Pneumoconiosis provides benefits for workers with pneumoconiosis resulting from exposure to coal dust created in the severance or processing of coal.
Petroleum Storage Tank Environmental Assurance Program provides for the cleanup of leaking underground storage tanks in amounts that exceed the insurance required of the owners and operators.
Mine Subsidence Insurance Program provides coverage against losses arising out of or due to mine subsidence within this state.
Bond Pool Program provides coverage to reclaim surface mined land when the permit holder has forfeited bonds posted for such purpose.

UNEMPLOYMENT COMPENSATION FUND
The Unemployment Compensation Fund accounts for assessed employer contributions and related unemployment compensation payments.

Internal Service Funds

Individual fund statements for the Internal Service Funds, whose combined totals are presented on this statement, begin on page ……..……..……..…144

COMMONWEALTH OF KENTUCKY
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	Business-Type Activities-		
	State Parks	Kentucky Lottery Corporation	Kentucky Horse Park
Assets			
Current assets:			
Cash and cash equivalents (Note 5)	$ 6,140	$ 18,099	$ 454
Cash on deposit with the Federal government (Note 5)			
Investments, net of amortization (Note 5)		27,911	
Receivables, net (Note 4)	780	25,580	673
Interfunds receivable (Note 7)	794		7
Inventories	2,577	264	329
Prepaid expenses	41	812	
Total Current Assets	10,332	72,666	1,463
Noncurrent assets:			
Investments, net of amortization (Note 5)	13,181	236,667	1,500
Receivables, net		4,925	
Capital assets (Note 6):			
Land	14,527	423	4,453
Improvements other than buildings	55,560	332	16,561
Buildings	161,497	7,198	16,157
Machinery and equipment	14,664	36,637	2,861
Easements and other intangibles	2,321		
Less: Accumulated depreciation and amortization	(97,925)	(28,929)	(22,684)
Construction in progress	64,268		486
Total Capital Assets	214,912	15,661	17,834
Total Noncurrent Assets	228,093	257,253	19,334
Total Assets	238,425	329,919	20,797
Liabilities			
Current liabilities:			
Accounts payable (Note 4)	4,598	13,859	461
Judgements Payable			
Interfunds payable (Note 7)	1,108		20
Claims liability (Note 15)			
Claims adjustment liability (Note 15)			
Capital lease obligations (Note 10)	68		9
Prize liability		49,099	
Compensated absences (Note 15)	2,596	776	299
Deferred revenue	3,459		8
Total Current Liabilities	11,829	63,734	797
Noncurrent liabilities:			
Claims liability (Note 15)			
Claims adjustment liability (Note 15)			
Capital lease obligations (Note 10)	157		
Prize liability		198,835	
Compensated absences (Note 15)	2,840		310
Other liabilities (Note 15)	97		
Total Noncurrent Liabilities	3,094	198,835	310
Total Liabilities	14,923	262,569	1,107
Net Assets			
Invested in capital assets, net of related debt	214,688	15,661	17,632
Restricted for:			
Other purposes (Note 1)			
Unrestricted	8,814	51,689	2,058
Total Net Assets	$ 223,502	$ 67,350	$ 19,690

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Enterprise Funds				Governmental Activities- Internal Service Funds
Insurance Administration	Unemployment Compensation	Totals June 30, 2003		
$ 3,356	$ 7,864	$ 35,913		$ 2,751
	423,997	423,997		
		27,911		
33,185	75,105	135,323		1,019
1,041	4	1,846		2,391
		3,170		3,098
		853		4,970
37,582	506,970	629,013		14,229
317,265		568,613		33,267
		4,925		
		19,403		7,183
		72,453		3,163
		184,852		231,261
2,470		56,632		124,343
		2,321		
(1,428)		(150,966)		(191,985)
		64,754		8,726
1,042		249,449		182,691
318,307		822,987		215,958
355,889	506,970	1,452,000		230,187
273	20,538	39,729		5,267
				13
70	5,500	6,698		1,206
134,019		134,019		16,745
3,280		3,280		
		77		735
		49,099		
973		4,644		3,167
	16,578	20,045		1,382
138,615	42,616	257,591		28,515
1,032,160		1,032,160		101,870
20,079		20,079		
		157		992
		198,835		
673		3,823		2,978
		97		
1,052,912		1,255,151		105,840
1,191,527	42,616	1,512,742		134,355
1,042		249,023		180,955
	464,354	464,354		
(836,680)		(774,119)		(85,123)
$ (835,638)	$ 464,354	$ (60,742)		$ 95,832

COMMONWEALTH OF KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Business-Type Activities-		
	State Parks	Kentucky Lottery Corporation	Kentucky Horse Park
Operating Revenues:			
Charges for sales and services:			
State parks sales and services	$ 48,737	$	$
Lottery sales		673,485	
Horse park admissions and sales			5,840
Insurance receipts			
Unemployment insurance receipts			
Internal Service Fund Receipts			
Other services	2,001		1
Total Operating Revenues	50,738	673,485	5,841
Operating Expenses:			
Personal services	48,802	81,644	4,376
Utilities, rental, and other services	12,845		1,706
Commodities and supplies	19,696		1,850
Grants and subsidies			
Depreciation and amortization	6,827	2,184	585
Travel	244		44
Reinsurance expense			
Claims expense	(15)		1
Claims adjustment expense			
Prize expense		402,156	
Other expenses		7,408	
Total Operating Expenses	88,399	493,392	8,562
Operating Income	(37,661)	180,093	(2,721)
Nonoperating Revenues (Expenses):			
Gain (loss) on sale of fixed assets	437		
Interest and other investment income	18	34,284	(1)
Increase (decrease) in fair value of investments	25		25
Interest expense	(23)	(16,336)	
Other revenues (expenses)		(5,901)	
Total Nonoperating Revenues (Expenses)	457	12,047	24
Income (Loss) before Capital Contributions and Transfers	(37,204)	192,140	(2,697)
Capital Contributions	666		380
Transfers In	37,108		2,500
Transfers out	(1,831)	(174,629)	(75)
Change in Net Assets	(1,261)	17,511	108
Net Assets at July 1, as Restated (Note 2)	224,763	49,839	19,582
Net Assets at June 30	$ 223,502	$ 67,350	$ 19,690

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Enterprise Funds			Governmental Activities- Internal Service Funds
Insurance Administration	Unemployment Compensation	Totals June 30, 2003	
$	$	$ 48,737	$
		673,485	
		5,840	
109,923		109,923	
	492,451	492,451	
			153,257
47,186		49,188	339
157,109	492,451	1,379,624	153,596
18,471		153,293	53,013
2,199	10	16,760	40,884
1,315		22,861	20,165
162	490,338	490,500	947
389		9,985	17,681
127		415	457
			495
60,115		60,101	24,916
312		312	
		402,156	
444		7,852	
83,534	490,348	1,164,235	158,558
73,575	2,103	215,389	(4,962)
11,499		11,936	366
	29,299	63,600	106
7,752	(46)	7,756	509
		(16,359)	(164)
489		(5,412)	6
19,740	29,253	61,521	823
93,315	31,356	276,910	(4,139)
		1,046	14,724
96	5	39,709	14,211
(91,116)	(3,886)	(271,537)	(14,924)
2,295	27,475	46,128	9,872
(837,933)	436,879	(106,870)	85,960
$ (835,638)	$ 464,354	$ (60,742)	$ 95,832

COMMONWEALTH OF KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Business-Type Activities -	
	State Parks	Kentucky Lottery Corporation
Cash Flows from Operating Activities		
Cash received from customers - public	$ 47,365	$ 665,656
Cash received from customers - state	418	
Cash payments to suppliers for goods and services	(34,334)	(498,629)
Cash payments for employee salaries and benefits	(49,041)	(11,940)
Cash payments for claims expense		
Cash payments from other sources	2,001	
Cash payments to other sources		(3,363)
Net Cash Provided by Operating Activities	(33,591)	151,724
Cash Flows from Noncapital Financing Activities		
Transfers from other funds	37,108	
Transfers to other funds	(1,831)	(174,629)
Net Cash Provided by Noncapital Financing Activities	35,277	(174,629)
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(18,388)	(4,575)
Principal paid on revenue bond maturities and equipment contracts	(81)	(339)
Interest paid on revenue bonds and equipment contracts	(23)	(4)
Proceeds from the sale of capital assets	1,253	39
Net Cash Used for Capital and Related Financing Activities	(17,239)	(4,879)
Cash Flows from Investing Activities		
Purchase of investment securities		(7,744)
Proceeds from the sale of investment securities	10,558	29,748
Interest and dividends on investments	43	469
Net Cash Used in Investing Activities	10,601	22,473
Net Increase (Decrease) in Cash and Cash Equivalents	(4,952)	(5,311)
Cash and Cash Equivalents at July 1	11,092	23,410
Cash and Cash Equivalents at June 30	$ 6,140	$ 18,099
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income (loss)	$ (37,661)	$ 180,093
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	6,827	2,184
Miscellaneous nonoperating income (expense)		(3,173)
Change in assets and liabilities:		
(Increase) decrease in assets:		
Receivables, net	(266)	(7,996)
Interfund receivables	(697)	115
Inventories	86	255
Prepaid expenses	(7)	
Other assets		(350)
Increase (decrease) in liabilities:		
Accounts payable	(2,300)	1,648
Interfund payables	417	
Claims liability		(23,789)
Claims adjustment liability		
Compensated absences	6	
Deferred revenue	8	
Other liabilities	(4)	2,737
Net Cash Provided by Operating Activities	$ (33,591)	$ 151,724
Noncash Investing, Capital, and Financing Activities		
Change in fair value of investments	$ 25	$ 17,843
Contributions of capital assets	666	
Capital assets acquired through leases		117
Accretion of investments held to fund grand prizes, which increased prize liability		16,332
Total Noncash Investing, Capital, and Financing Activities	$ 691	$ 34,292

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Enterprise Funds				Governmental Activities - Internal Service Funds
Kentucky Horse Park	Insurance Administration	Unemployment Compensation	Totals June 30, 2003	
$ 5,476	$ 45,865	$ 102,855	$ 867,217	$ 3,394
275			693	150,575
(3,421)	(3,512)	(123,209)	(663,105)	(61,567)
(4,388)	(18,425)		(83,794)	(54,411)
(1)	(117,705)		(117,706)	(22,662)
	106,712	349,689	458,402	311
		(495,209)	(498,572)	(1,030)
(2,059)	12,935	(165,874)	(36,865)	14,610
2,500	96	5	39,709	14,210
(75)	(91,116)	(3,886)	(271,537)	(14,924)
2,425	(91,020)	(3,881)	(231,828)	(714)
(685)	(203)		(23,851)	(20,228)
(18)			(438)	(3,328)
			(27)	(165)
			1,292	2,431
(703)	(203)		(23,024)	(21,290)
			(7,744)	(3,271)
43	41,378	2,773	84,500	7,303
24	5,832	29,253	35,621	614
67	47,210	32,026	112,377	4,646
(270)	(31,078)	(137,729)	(179,340)	(2,748)
724	34,434	569,590	639,250	5,499
$ 454	$ 3,356	$ 431,861	$ 459,910	$ 2,751
$ (2,721)	$ 73,575	$ 2,103	$ 215,389	$ (4,962)
585	389		9,985	17,681
	642		(2,531)	6
(311)	(4,784)	(58,424)	(71,781)	(428)
223	715		356	2,407
139			480	921
8			1	66
	(60)		(410)	
(30)	(638)	(128,480)	(129,800)	(4,127)
20	36	1,471	1,944	(55)
	(18,185)		(41,974)	4,534
	(38,618)		(38,618)	
32	(137)		(99)	(753)
(4)		17,456	17,460	(680)
			2,733	
$ (2,059)	$ 12,935	$ (165,874)	$ (36,865)	$ 14,610
$ 25	$ 7,752	$ (46)	$ 25,599	$ 509
			666	14,724
			117	
			16,332	
$ 25	$ 7,752	$ (46)	$ 42,714	$ 15,233

FIDUCIARY FUNDS FINANCIAL STATEMENTS

Pension (and Other Employee Benefit) trust funds account for monies received for and expenses incurred by the various public employee retirement systems administered by the State. Kentucky uses the following pension trust funds:

KENTUCKY EMPLOYEES RETIREMENT SYSTEM
COUNTY EMPLOYEES RETIREMENT SYSTEM
JUDICIAL RETIREMENT SYSTEM
STATE POLICE RETIREMENT SYSTEM
KENTUCKY TEACHERS' RETIREMENT SYSTEM
LEGISLATORS' RETIREMENT SYSTEM
DEFERRED COMPENSATION SYSTEM

Agency funds account for monies held by the Commonwealth for custodial purposes only. Kentucky uses the following agency funds:

COMMONWEALTH CHOICE
SPECIAL DEPOSIT TRUST FUND
COUNTY FEES FUND

Private-purpose trust funds are used to report trust arrangements under which principal and interest benefit individuals, private organizations or other goverments. Kentucky uses the following private-purpose trust funds:

KENTUCKY EDUCATIONAL SAVINGS PLAN TRUST
KENTUCKY'S AFFORDABLE PREPAID TUITION PLAN TRUST

COMMONWEALTH OF KENTUCKY
STATEMENT OF FIDUCIARY NET ASSETS
ALL FIDUCIARY FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	Pension Trust Funds	Agency Funds	Private - Purpose Trust Funds	Totals June 30, 2003
Assets				
Cash and cash equivalents (Note 5)	$ 1,473,157	$ 95,489	$ 4,637	$ 1,573,283
Cash with fiscal agents (Note 5)		4,992		4,992
Investments, net of amortization (Note 5)	28,498,227	157,452	79,453	28,735,132
Receivables, net	271,880	6,749	35,818	314,447
Interfunds receivable (Note 7)		93		93
Prepaid expenses	197			197
Buildings	4,646			4,646
Total Assets	30,248,107	264,775	119,908	30,632,790
Liabilities				
Accounts payable	21,582	101,232	108	122,922
Interfunds payable (Note 7)		9,149		9,149
Amounts held in custody for others		154,394		154,394
Interfund loans payable			1,000	1,000
Other liabilities	4,565,294		91,870	4,657,164
Total Liabilities	4,586,876	264,775	92,978	4,944,629
Net Assets				
Held in trust for:				
Employee retirement systems	24,151,895			24,151,895
Retirees' health insurance	1,509,336			1,509,336
Other purposes			36,543	36,543
Unrestricted			(9,613)	(9,613)
Total Net Assets	$ 25,661,231	$	$ 26,930	$ 25,688,161

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

COMMONWEALTH OF KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
ALL FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Pension Trust Funds	Private-Purpose Trust Funds	Totals June 30, 2003
Additions			
Contributions:			
Employer	$ 699,116	$ 46,193	$ 745,309
Member	710,896		710,896
Total Contributions	1,410,012	46,193	1,456,205
Investment income:			
Net increase (decrease) in fair value of investments	261,886	2,323	264,209
Interest	532,399	2,452	534,851
Dividends	214,154		214,154
Real estate operating income, net	31,207		31,207
Securities lending income, net	48,717		48,717
Total Investment Income	1,088,363	4,775	1,093,138
Less: Investment expense	15,704	97	15,801
Less: Securities lending expense	42,397		42,397
Net Investment Income	1,030,262	4,678	1,034,940
Other additions		105	105
Total Additions	2,440,274	50,976	2,491,250
Deductions			
Benefit payments	1,770,265	1,732	1,771,997
Refunds	30,555	254	30,809
Administrative expenses	27,209	1,400	28,609
Other deductions, net	113,206	39,670	152,876
Total Deductions	1,941,235	43,056	1,984,291
Change in Net Assets	499,039	7,920	506,959
Net Assets Held In Trust			
Net Assets at July 1, as Restated (Note 2)	25,162,192	19,010	25,181,202
Net Assets at June 30	$ 25,661,231	$ 26,930	$ 25,688,161

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

COMPONENT UNITS FINANCIAL STATEMENTS

Major Component Units

KENTUCKY HOUSING CORPORATION

The Kentucky Housing Corporation was authorized under KRS Chapter 198A in 1972 to increase the supply of housing for persons of lower income by making and participating in insured construction loans. The Corporation also makes and participates in insured mortgage loans when financing is not available from private lenders under reasonable equivalent terms and conditions.

KENTUCKY HIGHER EDUCATION ASSISTANCE AUTHORITY

The Kentucky Higher Education Assistance Authority was established by KRS 164.742 to improve higher education opportunities by insuring eligible student loans and providing grants and scholarship awards to eligible students.

KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION

The Kentucky School Facilities Construction Commission was established to assist local school districts in meeting the school construction needs of the Commonwealth in a manner that ensures an equitable distribution of funds based upon unmet needs.

UNIVERSITY AND COLLEGE FUNDS

The University and College Funds account for all transactions relating to the nine State-supported universities and the community colleges and technical schools. These institutions maintain their own financial records and are not part of the central accounting system operated by the Finance and Administration Cabinet. The major component units-universities are:

UNIVERSITY OF KENTUCKY
UNIVERSITY OF LOUISVILLE
KENTUCKY COMMUNITY AND TECHNICAL COLLEGE SYSTEM

Non-Major Component Units

The non-major component units are presented beginning on page 168

COMMONWEALTH OF KENTUCKY
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2003
(Expressed in Thousands)

	AUTHORITIES		
	Kentucky Housing Corporation	Kentucky Higher Education Assistance Authority	Kentucky School Facilities Construction Commission
Assets			
Current assets:			
Cash and cash equivalents (Note 5)	$ 48,480	$ 93,859	$ 865
Restricted cash (Note 5)			
Investments, net of amortization (Note 5)	215,355	6,779	
Accounts receivable, net	38,752	6,628	
Interest receivable		18,446	
Inventories		309	
Prepaid expenses		194	
Other current assets		278	
Total Current Assets	302,587	126,493	865
Noncurrent assets:			
Restricted cash (Note 5)		205,022	
Long-term investments (Note 5)	219,908	8,792	13,439
Long-term receivables, net	1,095,908	806,744	
Deferred charges	17,917	14,279	891
Capital assets (Note 6):			
Land	942		
Improvements other than buildings			
Buildings	4,815	8,779	
Machinery and equipment	5,733	11,410	
Other capital assets			
Easements and other intangibles			
Less: Accumulated depreciation and amortization	(5,667)	(7,883)	
Construction in progress	238	2,399	
Total Capital Assets	6,061	14,705	
Other assets		10,990	
Total Noncurrent Assets, Net	1,339,794	1,060,532	14,330
Total Assets	1,642,381	1,187,025	15,195
Liabilities			
Current liabilities:			
Accounts payable	31,988	12,741	10,158
Accrued liabilities		72	
Current portion of long-term debt:			
Notes payable (Note 15)	5,285		
Bonds payable (Note 15)	28,350	19,190	50,816
Capital lease obligations (Note 10)			
Compensated absences (Note 16)	1,268	349	18
Claims liability			
Deferred revenues	4,159		
Payable from restricted assets			
Other current liabilities	20,557		
Total Current Liabilities	91,607	32,352	60,992
Noncurrent liabilities:			
Notes payable (Note 15)			
Bonds payable (Note 15)	1,279,495	1,012,100	527,097
Capital lease obligations (Note 10)			
Compensated absences (Note 16)			5
Other long-term liabilities	1,208	21,166	
Total Noncurrent Liabilities	1,280,703	1,033,266	527,102
Total Liabilities	1,372,310	1,065,618	588,094
Net Assets			
Invested in capital assets, net of related debt	6,061	7,191	
Restricted for:			
Debt service	204,739	69,988	
Other purposes (Note 1)	21,891	32,873	
Unrestricted	37,380	11,355	(572,899)
Total Net Assets	$ 270,071	$ 121,407	$ (572,899)

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

UNIVERSITIES and COLLEGES				
University of Kentucky	University of Louisville	Kentucky Community and Technical College System	Non-Major Component Units	All Component Units Totals June 30, 2003
$ 288,549	$ 46,614	$ 80,574	$ 269,508	$ 828,449
			4,108	4,108
	38,862	121	72,821	333,938
125,109	52,108	17,569	78,648	318,814
8,737			8,036	35,219
16,639	1,438	3,382	6,532	28,300
			3,915	4,109
	24,240		14,759	39,277
439,034	163,262	101,646	458,327	1,592,214
72,188	23,350	49,846	77,614	428,020
620,271	29,174	26,214	229,629	1,147,427
24,592	19,703	7,331	434,984	2,389,262
			3,642	36,729
33,848	37,052	17,532	46,956	136,330
50,768	6,863	12,911	37,451	107,993
1,046,118	518,355	337,822	1,172,180	3,088,069
458,345	220,118	80,660	279,416	1,055,682
			45,702	45,702
	1,960	7,086		9,046
(765,873)	(326,403)	(192,219)	(811,448)	(2,109,493)
62,409	10,680	74,968	118,973	269,667
885,615	468,625	338,760	889,230	2,602,996
	10,837		24,142	45,969
1,602,666	551,689	422,151	1,659,241	6,650,403
2,041,700	714,951	523,797	2,117,568	8,242,617
111,431	22,411	7,484	44,304	240,517
				72
	195		1,322	6,802
13,770	12,859	8,440	36,234	169,659
11,441	1,244	242	4,404	17,331
366	10,486	7,287	12,955	32,729
			8,117	8,117
43,029	29,207	16,702	55,192	148,289
		8,978	3,838	12,816
14,458	1,594		6,519	43,128
194,495	77,996	49,133	172,885	679,460
	700		15,113	15,813
176,366	112,992	51,235	362,182	3,521,467
33,572	775	6,813	58,192	99,352
2,134			1,390	3,529
59,132	36,978	3,468	41,492	163,444
271,204	151,445	61,516	478,369	3,803,605
465,699	229,441	110,649	651,254	4,483,065
667,485	340,588	272,030	654,712	1,948,067
10,176	23,190	10,500	14,541	333,134
496,794	51,499	82,494	211,696	897,247
401,546	70,233	48,124	585,365	581,104
$ 1,576,001	$ 485,510	$ 413,148	$ 1,466,314	$ 3,759,552

COMMONWEALTH OF KENTUCKY
STATEMENT OF ACTIVITIES
COMPONENT UNITS
JUNE 30, 2003
(Expressed in Thousands)

	Kentucky Housing Corporation	Kentucky Higher Education Assistance Authority	Kentucky School Facilities Construction Commission	University of Kentucky
Expenses:				
Operating and other expenses	$ 223,705	$ 175,249	$ 52,450	$ 1,242,008
Depreciation				
Interest on long-term debt				
Total Expenses	223,705	175,249	52,450	1,242,008
Program Revenues:				
Charges for services	99,120	64,805	69,205	566,596
Operating grants and contributions	131,051	108,011		345,829
Capital grants and contributions				20,464
Total Program Revenues	230,171	172,816	69,205	932,889
Net Program (Expense) Revenue	6,466	(2,433)	16,755	(309,119)
General Revenues:				
Unrestricted grants and contributions				48,909
Unrestricted investment earnings		140		33,344
Gain on sale of capital assets				
Miscellaneous general		831	1,607	295,441
Total General Revenues		971	1,607	377,694
Change in Net Assets	6,466	(1,462)	18,362	68,575
Net Assets at July 1, as Restated (Note 2)	263,605	122,869	(591,261)	1,507,426
Net Assets at June 30	$ 270,071	$ 121,407	$ (572,899)	$ 1,576,001

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

University of Louisville	Kentucky Community and Technical College System	Non-Major Component Units	All Component Units Totals June 30, 2003
$ 510,672	$ 383,632	$ 1,031,112	$ 3,618,828
		1,702	1,702
		1,262	1,262
510,672	383,632	1,034,076	3,621,792
240,345	66,411	329,638	1,436,120
92,955	145,337	247,745	1,070,928
2,286		4,690	27,440
335,586	211,748	582,073	2,534,488
(175,086)	(171,884)	(452,003)	(1,087,304)
21,643	4,857	76,236	151,645
3,812	875	7,980	46,151
	(1,564)	(364)	(1,928)
141,159	187,167	348,222	974,427
166,614	191,335	432,074	1,170,295
(8,472)	19,451	(19,929)	82,991
493,982	393,697	1,486,243	3,676,561
$ 485,510	$ 413,148	$ 1,466,314	$ 3,759,552

COMMONWEALTH OF KENTUCKY
STATEMENT OF CASH FLOWS
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Kentucky School Facilities Construction Commission	Non-Major Component Units Authorities	Totals June 30, 2003
Cash Flows from Operating Activities			
Cash received from customers - public	$ 69,205	$ 6	$ 69,211
Cash payments to suppliers for goods and services	(2,026)		(2,026)
Cash payments for employee salaries and benefits	(197)		(197)
Cash payments to other sources	(25,245)	(513)	(25,758)
Net Cash Provided by Operating Activities	41,737	(507)	41,230
Cash Flows from Capital and Related Financing Activities			
Principal paid on revenue bond maturities and equipment contracts	(24,845)		(24,845)
Interest paid on revenue bond maturities and equipment contracts	(26,399)		(26,399)
Net Cash Used by Capital and Related Financing Activities	(51,244)		(51,244)
Cash Flows from Investing Activities			
Purchase of investment securities		(223)	(223)
Proceeds from the sale of investment securities	7,845		7,845
Interest and dividends on investments	1,021	205	1,226
Net Cash Used in Investing Activities	8,866	(18)	8,848
Net Increase (Decrease) in Cash and Cash Equivalents	(641)	(525)	(1,166)
Cash and Cash Equivalents at July 1	1,506	759	2,265
Cash and Cash Equivalents at June 30	$ 865	$ 234	$ 1,099
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income (loss)	$ 43,741	$ (513)	$ 43,228
Adjustments to reconcile operating income to net cash provided by operating activities:			
Increase (decrease) in liabilities:			
Accounts payable	(1,981)	6	(1,975)
Compensated absences	(23)		(23)
Net Cash Provided by Operating Activities	$ 41,737	$ (507)	$ 41,230
Noncash Investing, Capital, and Financing Activities			
Change in fair value of investments	$ 234	$ 25	$ 259
Total Noncash Investing, Capital, and Financing Activities	$ 234	$ 25	$ 259

NOTES TO FINANCIAL STATEMENTS

INDEX FOR NOTES

TO THE FINANCIAL STATEMENTS

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Note 1

SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for state governments as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The financial statements for the University and College Funds have been prepared according to standards established by GASB Statement 35.

B. Financial Reporting Entity

For financial reporting purposes, the Commonwealth of Kentucky includes all fund types, departments, and agencies of the Commonwealth, as well as boards, commissions, authorities, corporations, colleges, and universities. These organizational units comprise the reporting entity of the Commonwealth and are reported in accordance with GASB 14. Consequently, the reporting entity includes organizations that are not legally separate from the primary government and also those that are legally separate. Organizations not legally separate are reported as part of the primary government. Legally separate organizations are reported as component units if either the Commonwealth is financially accountable for the organization or when exclusion of the organization would cause the Commonwealth's financial statements to be misleading or incomplete.

Component units may be blended or discretely presented. Blended component units are those that either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as that of the primary government. Amounts related to blended component units are included as if the component units were part of the primary government. All other component units are discretely presented, or shown separately from the primary government.

Audited financial statements are available for the following blended component units: Kentucky Lottery Corporation, Kentucky Retirement System, Kentucky Teachers' Retirement System, Judicial Form Retirement System, and the Turnpike Authority of Kentucky. Audited financial statements are available for all discretely presented component units except the Kentucky Agricultural Finance Authority, the Kentucky Grain Insurance Corporation, and the Kentucky School Facilities Construction Commission. (See pages 103 and 104 for a complete list of component units' addresses.)

Blended Component Units

The following legally separate organizations provide services entirely, or almost entirely to the State or otherwise exclusively, or almost exclusively, that benefit the State, and therefore, these organizations' balances and transactions are reported as though they were part of the State's primary government by using the blending method.

Kentucky Lottery Corporation (KRS 154A.020)

The Kentucky Lottery Corporation is empowered by the Legislature to administer the Kentucky state lottery games. The board of directors is comprised of seven members appointed by the Governor with the advice and consent of the Senate.

Kentucky Retirement System (KRS 61.645)

The Kentucky Retirement System administers the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System. The board consists of the Secretary of the Personnel Cabinet, five members elected by the retirement systems, and three members appointed by the Governor.

Kentucky Teachers' Retirement System (KRS 161.220)

The Kentucky Teachers' Retirement System is an independent agency and instrumentality of the Commonwealth. It provides pension benefit plan coverage to employees of local school districts and educational agencies of the State. The board includes two ex officio members and seven elected members.

Judicial Form Retirement System (KRS 21.530)

The Judicial Form Retirement System accounts for monies and securities, including contributions and earnings, that will be used to pay benefits to the members of the Legislators' Retirement Plan and the Judicial Retirement Plan. The board consists of eight members; three are appointed by the Supreme Court, two by the Governor, one by the President of the Senate, one by the Speaker of the House of Representatives, and one by the President and Speaker jointly.

Turnpike Authority of Kentucky (KRS 175.430)

The Turnpike Authority is a body corporate and politic. It was created solely to perform essential governmental functions and to serve the public purposes of constructing, acquiring, financing, and operating turnpike and other road projects for the use, safety, convenience and general welfare of the traveling public, by leasing such projects to the Transportation Cabinet. The Governor and six other ex officio members comprise the authority.

Administrative Entities

The State Property and Buildings Commission, Kentucky Asset/ Liabilities Commission, Kentucky Tobacco Settlement Trust Corporation, Kentucky Savings Bond Authority, and the Board of Agriculture are legally separate entities of an administrative nature. They are comprised of elected and appointed officials from various state agencies, and have no cost associated with them. Therefore, there is no separate presentation for these entities.

State Property and Buildings Commission (KRS 56.450)

This commission is a public body corporate that issues all revenue bonds for state agencies, unless those agencies are specifically authorized by other provisions of the Kentucky Revised Statutes to issue bonds. The commission is composed of six ex officio members.

Kentucky Asset/Liability Commission (KRS 56.861)

The commission is a public body corporate that takes a comprehensive view of the Commonwealth's finances and develops policies and strategies to minimize the impact of fluctuating revenue receipts and interest rates on the Commonwealth's interest-sensitive assets and liabilities. The commission consists of five ex officio members.

Kentucky Tobacco Settlement Trust Corporation (KRS 248.480)

The Kentucky Tobacco Settlement Trust Corporation is a public body corporate that performs essential governmental and public functions by assisting in the implementation of the national tobacco grower settlement trust agreement. The board of directors is comprised of nine members appointed by the Governor with the advice and consent of the Senate and House of Representatives.

Kentucky Savings Bond Authority (KRS 293.030)

This authority is a body corporate and politic that promotes investment by the general public in bonds of the Commonwealth and helps to reduce interest costs to the Commonwealth or its agencies. The authority consists of seven commissioners, three ex officio members and four members appointed by the Governor.

Board of Agriculture (KRS 246.120)

The board is a body corporate that acts as an advisory board to the Commissioner of Agriculture, aids in the collection of information concerning crops, promulgates industrial information, and acts as an immigration committee. The board consists of two ex officio members and seven citizens of the Commonwealth appointed by the Governor.

Discretely Presented Component Units

The component units' columns in the combined financial statements include the data of the discretely presented component units described below. They are reported together in a separate column labeled "Component Units" to emphasize these organizations' separateness from the Commonwealth's primary government.

Kentucky River Authority (KRS 151.710)

The Kentucky River Authority possesses the corporate powers that distinguish it as being legally separate from the Commonwealth. This authority's purpose is the maintenance of the Commonwealth's locks and dams on the Kentucky River. The Governor appoints the twelve members of this authority.

Kentucky Housing Corporation (KRS 198A.030)

The Housing Corporation is a body corporate and politic that performs essential governmental and public functions in improving and promoting the health and welfare of the citizens of the Commonwealth by the production of residential housing in Kentucky. The board of directors consists of six ex officio members and eight members appointed by the Governor.

Bluegrass State Skills Corporation (KRS 154.12-205)

This corporation attempts to improve and promote employment opportunities of the Commonwealth's citizens by assisting the Economic Development Cabinet in creating and expanding programs offering skills, training and education. The board of directors consists of five ex officio members and thirteen members appointed by the Governor.

Kentucky School Facilities Construction Commission (KRS 157.617)

The commission is an independent corporate agency and instrumentality of the Commonwealth. The purpose of the commission is to assist local school districts in meeting the school construction needs of the Commonwealth in a manner that will ensure an equitable distribution of funds based upon unmet needs. One ex officio member and eight members appointed by the Governor comprise the commission.

Kentucky State Fair Board (KRS 247.090)

This board is a body corporate that accounts for revenues earned and expenses incurred in the commercial operations of the State Fair Board. Three ex officio members and nine members appointed by the Governor make up the twelve-member board.

Kentucky Center for the Arts Corporation (KRS 153.410)

The Center for the Arts is a body corporate created by the General Assembly to promote the growth and development of the arts, convention trade, tourism and hotel industries within Jefferson County and the Commonwealth. The board consists of fifteen members appointed by the Governor.

Kentucky Educational Television Authority (KET) (KRS 168.030)

KET is a public body corporate and politic that prescribes and enforces regulations governing the use of educational television and television facilities and related functions. KET also produces and transmits educational television programs. The authority consists of nine members. The Governor appoints five of these members. The board elects a liaison between the authority and the department on matters of curriculum. The Council on Postsecondary Education elects a representative of the University of Kentucky and a representative of the state universities. The authority's members elect a chairman. A component unit of KET is the Kentucky Educational Television Foundation. The foundation is a non-profit Kentucky corporation that receives, holds and administers gifts and grants in the name of and with the approval of the authority.

Kentucky Economic Development Finance Authority (KEDFA) (KRS 154.20-010)

KEDFA possesses the corporate powers necessary to distinguish it as legally separate from the Commonwealth. It was established to assist business enterprises in obtaining financial resources in order to promote the Commonwealth's long-term economic growth. The board consist of six members appointed by the Kentucky Economic Development Partnership, plus the secretary of the Finance and Administration Cabinet.

Kentucky Higher Education Assistance Authority (KHEAA) (KRS 164.742)

This authority is a body corporate and politic that operates to improve the higher education opportunities of persons who are attending or planning to attend eligible institutions by insuring eligible student loans. KHEAA also oversees the Kentucky Educational Savings Plan Trust and the Kentucky Higher Education Student Loan Corporation, both of which are component units of KHEAA.

Kentucky Council on Postsecondary Education (KRS 164.011)

This council was established in 1997 under the direction of the Kentucky Postsecondary Education Improvement Act. The council consists of 16 members—13 citizens, one faculty member, one Governor-appointed student, and the Commissioner of Education. This council coordinates change and improvement in Kentucky's postsecondary education system. This council strives to increase literacy, improve work-related skills, and to raise the number of students attending college and completing college degrees.

Kentucky Infrastructure Authority (KRS 224A.030)

The authority is a body corporate and politic created to perform essential governmental functions and to serve the local public agencies of the Commonwealth with respect to the construction and acquisition of infrastructure projects. The board consists of five ex officio members and three members appointed by the Governor.

Kentucky Agricultural Finance Corporation (KAFC) (KRS 247.944)

KAFC is a corporation that seeks to improve and promote the health and general welfare of the Commonwealth's people through the advancement of agriculture. The board of directors consists of three ex officio members and nine members appointed by the Governor.

Kentucky Grain Insurance Corporation (KGIC) (KRS 251.620)

KGIC is a body politic created to promote the Commonwealth's welfare by improving the economic stability of agriculture and protecting grain producers in the event of a financial failure of a grain dealer or warehouseman. The board of directors consists of four ex officio members and six members appointed by the Commissioner of the Department of Agriculture.

Kentucky Health Care Improvement Authority (Kentucky Access) (KRS 304.17B-003)

The Kentucky Health Care Improvement Authority was created as a body corporate and politic and is funded by assessments on insurers, enrollment fees, and Tobacco Trust Funds. Consisting of 15 board members, this authority exists for administrative purposes in the Department of Insurance and administers the Kentucky Access program.

Kentucky Local Correctional Facilities Construction Authority (KRS 441.615)

This authority is a body corporate and politic created to provide an additional and alternative method of constructing, reconstructing, improving or repairing, and financing jails and appurtenant facilities for any local government in the Commonwealth. The membership consists of six ex officio members and four members appointed by the Governor.

State Colleges, Universities and Kentucky Community Technical College System (KRS 164.350)

Each board of regents or board of trustees is appointed by the Governor, and constitutes a body corporate with the power to receive and administer revenue and property.

C. Government-Wide Financial Statements

Government-Wide Financial Statements - The Statement of Net Assets and Statement of Activities report information on all governmental and business-type activities of the primary government and its non-fiduciary component units. Governmental activities are generally characterized by their use of taxes, intergovernmental revenues, and other non-exchange revenues as funding sources. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds and fiduciary component units are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Therefore, deferred revenues are only reported for receipts of prepayments or revenues collected in advance (unearned revenues). Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues once provider-imposed eligibility requirements have been met.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities with the difference between the two shown as net assets. Net assets are reported in three categories:

(1) Invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation and further reduced by debt net of cash balances, for debt related to the acquisition, construction, or improvement of those assets.
(2) Restricted net assets result from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation.
(3) Unrestricted net assets are those net assets that do not meet the definition of restricted net assets or invested in capital assets.

When restricted assets and unrestricted assets are both available for a particular purpose, the Commonwealth's objective is to use any restricted funds first, since unrestricted funds are available for any purpose and provide for greater financial flexibility. If the rules governing restricted assets are met, restricted assets may be the only funds used. However, there may be instances in which restricted funds may only be spent in proportion to unrestricted funds spent. Assets shown as restricted for "other purposes" for the Primary Government and Component Units are as follows:

A significant feature of the government-wide Statement of Activities is the presentation of each program's net cost. GAAP require the reporting of a program's net cost to indicate how self-sustaining the program is and to reveal the extent of reliance on other governmental units. Net cost is obtained by subtracting program expenses from program revenues. Program expenses are those costs attributable to a particular function including certain indirect costs. GAAP permit both direct and indirect program expenses to be presented together

Restricted Net Assets
(Expressed in Thousands)

	Primary Government			
Restricted for Other Purposes:	Governmental Type Activities	Business Type Activities	Total Primary Government	Component Units-Major
Capital projects	$ 335,179	$	$ 335,179	$ 106,576
Highways	499,879		499,879	
Unemployment benefits		464,354	464,354	
Loans				46,366
Education				334,350
Research				169,022
Other				29,237
Totals	$ 835,058	$ 464,354	$ 1,299,412	$ 685,551

in an "Expenses" column. Therefore, indirect expenses are not specifically identified with individual functions and activities.

Program revenues are resources that derive directly from the program itself or from parties outside the government that reduce the total expense of the benefiting functional activity to arrive at the net expense of the activity. The Statement of Activities categorizes program revenues into three groups: charges for goods, services, and other benefits; operating grants and contributions; and capital grants and contributions. Revenues not considered program revenues are classified as general revenues. General revenues include all taxes regardless of type.

D. Fund Financial Statements

Primary Government - The accompanying financial statements are structured into three fund categories including governmental funds, proprietary funds and fiduciary funds. Funds are characterized as either major or non-major. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds of that category or type (governmental or enterprise funds), and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The Commonwealth's major funds are identified herein.

Governmental Funds

All governmental fund statements are accounted for on the modified accrual basis of accounting and focus on the flow of current financial resources. In accordance with the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the fiscal period. Revenues are considered to be available when they are either collected within the current period or their collection is expected shortly after the end of the current period in time to meet current liabilities. The State generally includes those revenues to be received up to 30 days following the end of the accounting period. Revenues expected to be collected after 30 days beyond the end of the accounting period are considered unavailable and are reported as deferred revenues. Deferred revenues also include amounts received but unearned as of June 30.

Principal revenue sources accounted for on the modified accrual basis include federal grants, sales and use tax, coal severance tax, property tax, departmental fees, income taxes, and interest income. Motor vehicle registration fees and fines and forfeitures are accounted for on the cash basis. Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale February 1 following the delinquency date.

In governmental funds, where the focus is on the flow of current resources, expenditures are usually recorded at the time liabilities are incurred. Exceptions are: inventories, prepayments, and acquisition of capital assets which are recorded at the time of acquisition; and principal and interest on long-term debt, as well as compensated absences which are recorded as expenditures in the period payment is made.

A description of significant governmental funds follows:

General Fund - a major fund that accounts for financial resources appropriated by the General Assembly which are not required to be accounted for in another fund.

Special Revenue Funds - a category of governmental funds that accounts for specific revenue sources, other than for major capital projects, dedicated to specific operations. Includes funds such as the transportation fund, federal fund, and agency revenue fund.

> **Transportation Fund** - a major fund that accounts for activities related to the preservation and maintenance of roads.
>
> **Federal Fund** - a major fund that accounts for monies received from the federal government to be spent on specific programs and operations.
>
> **Agency Revenue Fund-** a major fund that accounts for revenues and expenditures of restricted taxes, fees, and charges related to a particular function or activity.

The Special Revenue Fund includes these non-major governmental funds:

> Special Benefits - accounts for monies designated to be distributed for specific operations.
>
> Other Special Revenue Fund - accounts for the revenues and expenses of restricted taxes, fees and charges related to a certain function and is not appropriated.

Capital Projects Fund - a major fund that accounts for financial resources appropriated by the General Assembly for the acquisition, construction, or renovation of major capital facilities, and for the acquisition of major equipment, other than those financed by proprietary funds and certain trust funds.

Debt Service Fund - a non-major fund that accounts for the accumulation of resources for, and the payment of, general long-term obligation principal, interest, and related administrative costs.

Proprietary Funds

Proprietary funds use the full accrual basis of accounting, recognizing revenues and expenses when they occur, regardless of the timing of the cash flows. On the statement of revenues, expenses, and changes in net assets, "expenses" (not "expenditures" as in governmental funds on a modified accrual basis) describes decreases in economic benefits and emphasizes the accrual basis of accounting.

Proprietary funds' revenues and expenses are divided into operating and nonoperating revenues and expenses. Although not specifically defined by GAAP, operating revenues and expenses are considered to be those resources gained and consumed to produce and deliver goods and services that are central to that fund's particular purpose. Other revenues and expenses are classified as nonoperating. Operating and nonoperating expenses are further characterized by object (personal services, depreciation expense, travel expense, etc.).

Furthermore, the Commonwealth has adopted the provisions of GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that use Proprietary Fund Accounting." As permitted by GASB Statement No. 20, the primary government's proprietary funds have elected not to adopt FASB Statements or Interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations. Each proprietary component unit has individually made this election as disclosed in their separate audit reports.

Enterprise Funds - a category of proprietary funds used to account for those public corporations empowered by the Kentucky Revised Statutes (KRS) to provide certain services to the citizens of the Commonwealth and the operations of State agencies that provide goods or services to the general public on a user charge basis. Also included are the operations of the State's risk management pools.

State Parks Fund - a major fund that accounts for revenues earned and expenses incurred in the commercial operations of the Department of Parks.

Kentucky Lottery Corporation – a blended component unit presented as a major fund, empowered by KRS 154A to administer the Kentucky state lottery, created pursuant to amended Section 226 of the Constitution of Kentucky as ratified by the voters of the Commonwealth.

Kentucky Horse Park Fund - a major fund that accounts for revenues earned and expenses incurred in the commercial operations of the Kentucky Horse Park.

Insurance Administration Fund - a major fund that accounts for insurance risk pools operated by the State, including the Workers' Compensation Special Fund, Coal Workers' Pneumoconiosis Fund, Petroleum Storage Tank Environmental Assurance Program, Mine Subsidence Insurance Program, and Bond Pool Program.

Unemployment Compensation Fund – a major fund that accounts for assessed employer contributions and related unemployment compensation payments.

Internal Service Funds - a category of proprietary funds that accounts for financing goods and services provided by one agency of the Commonwealth primarily to other agencies or governments on a cost reimbursement basis. All of the proprietary funds (where the measurement focus is on the flow of economic resources) are accounted for on the accrual basis of accounting. Accordingly, revenues are recognized when they are both earned and measurable. Expenses are recognized at the time liabilities are incurred.

Since internal service funds usually exist to support governmental activities, they are normally included as part of the governmental activities reported in the government-wide statements, rather than being presented separately.

Specific activities reported under Internal Service Funds are:
1. Management/maintenance of State motor vehicle fleet
2. Industrial prison operations
3. Rental and maintenance operations for buildings
4. Computer and related data processing services
5. Printing services
6. Fire and tornado insurance programs
7. State workers' compensation program
8. Transportation Cabinet self-insured workers' compensation trust program

Fiduciary Funds

Fiduciary funds are defined as funds used to report assets held in a trustee or agency capacity for others and which, therefore, cannot be used to support the government's own programs. This category of funds includes private-purpose trust funds, pension (and other employee benefit) trust funds, investment trust funds, and agency funds. The Commonwealth's fiduciary fund types are described below.

Private-Purpose Trust Funds – account for monies (principal and interest) held for individuals, private organizations, or other governments, that would not be properly reported in a pension or investment trust fund.
Specific activities reported under the Commonwealth's Private-Purpose Trust Funds are:

Prepaid tuition:

Kentucky's Affordable Prepaid Tuition Plan Trust (KAPT) is a private-purpose trust that allows for the prepayment of future costs of postsecondary education at today's prices. The money collected from participants is invested with the expectation that

the investment's rate of return will be equal to or greater than the increase in college tuition rates. Amounts earned in excess of those needed to fund tuition payments will remain in the fund to pay operating expenses of the fund. KAPT funds are not available to support other government programs. KAPT is not backed by the full faith and credit of the Commonwealth. However, if the rise in tuition costs is greater than earnings and the trust has a deficit balance, up to 75% of the amounts available in unclaimed property may be used to pay tuition amounts due.

Investment for education and endowments:
The Kentucky Educational Savings Plan Trust, a component unit of KHEAA as described in Section B of this note, encourages citizens to invest funds for future educational use, and to create an endowment fund from which income will be available as participants' savings.

Pension and Other Employee Benefit Trust Funds – account for monies received for, expenses incurred by, and net assets available for plan benefits of the various public employee retirement systems. This fund type also accounts for monies held in deferred compensation plans. Pension Trust Funds are accounted for on the accrual basis of accounting and reported in the same manner as proprietary fund types.

Agency Funds – account for monies held by the Commonwealth for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus. However, the agency fund uses the accrual basis of accounting when recognizing payables and receivables.

Specific activities listed under the Commonwealth's Agency Funds are:
1. Commonwealth Choice benefit spending accounts
2. Special Deposit Trusts holding monies for specific purposes
3. County Fees Fund holding monies for Kentucky Counties with a population of 75,000 or more

As discussed previously, because the fiduciary fund resources are not available to support government programs, fiduciary funds (and component units that are fiduciary in nature) are excluded from the government-wide financial statements. Inclusion of these funds would create a misleading view of the government's position and results of activities.

E. Presentation of Component Units

Presentation of the underlying fund types of the individual component units (described previously) reported in the discrete column is available from each respective component unit's separately issued financial statements.

The Major Discretely Presented Component Units, including Colleges and Universities are:

Kentucky Community and Technical College System
Kentucky Housing Corporation
Kentucky Higher Education Assistance Authority
Kentucky School Facilities Construction Commission
University of Kentucky
University of Louisville

The Non-Major Discretely Presented Component Units including Colleges and Universities are:

Kentucky Agricultural Finance Corporation
Kentucky Center for the Arts Corporation
Kentucky Economic Development Finance Authority
Kentucky Educational Television Authority
Kentucky Grain Insurance Corporation
Kentucky Infrastructure Authority
Kentucky Local Correctional Facilities Construction Authority
Kentucky River Authority
Kentucky State Fair Board
Bluegrass State Skills Corporation
Kentucky Council on Postsecondary Education
Kentucky Access
Eastern Kentucky University
Kentucky State University
Morehead State University
Murray State University
Northern Kentucky University
Western Kentucky University

Kentucky Educational Savings Plan Trust is presented as a Private-Purpose Trust Fund with the fiduciary type funds, but it is a component unit of Kentucky Higher Education Assistance Authority (a component unit itself).

The Commonwealth has significant transactions with its component units, primarily in providing operating funds to the universities from the State's general fund. During fiscal year 2003, the primary government provided $304,755,700 to the University of Kentucky, $171,976,400 to the University of Louisville, and $185,313,100 to the Kentucky Community and Technical College System. In addition, the State received $174,629,100 in proceeds from the Kentucky Lottery Corporation.

F. Cash and Cash Equivalents

In addition to bank accounts, cash on hand, and imprest cash, this classification includes short-term investments with an original maturity of 90 days or less (from date of purchase). Cash equivalents are generally stated at cost, which approximates market. Deferred

Compensation amounts are reported at fair value. Short-term investments classified as cash equivalents at June 30, 2003 are $1,760,464,166.

G. Investments

This classification includes long-term investments that are stated at fair value. Investments of the Deferred Compensation Plan are reported at fair value. See Note 5 for investment details.

H. Receivables

Receivables in the Commonwealth's governmental and fiduciary funds primarily consist of Federal revenues, taxes, and interest on investments. Some governmental fund revenues are not susceptible to accrual prior to receipt, including licenses, fees, permits, and similar revenues that are recognized on the cash basis. Receivables in all other funds have arisen in the ordinary course of business. Receivables in the governmental funds are reported net of allowances for uncollectibles. Disaggregation of current accounts receivable and current taxes receivable are shown in Note 4.

I. Interfund Transactions

The Commonwealth has the following types of interfund transactions:

Quasi-External Transactions - Charges for services rendered by one fund to another that are treated as revenues of the recipient fund and expenditures or expenses of the disbursing fund.

Reimbursements - Reimbursement of expenditures made by one fund for another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers presented in the fund financial statements represent the flow of assets (such as goods or cash) without equivalent flow of assets in return or requirement of repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund that expends the resources.

The composition of the interfund transactions is presented in Note 7. Note that at the entity-wide level, the majority of interfund activity has been eliminated. This is to avoid the "doubling up" of such transactions so that revenues and expenses will not be reported more than once.

Transfers and receivables and payables between governmental activities and business-type activities have not been eliminated. Also remaining are the results of activities between different functional categories. For example, services provided and used are not eliminated because doing so would misstate the expenses of purchasing function and the program revenues of the selling function.

J. Inventories and Prepaid Expenses

Inventories in the governmental funds and similar trust funds consist of expendable supplies held for consumption, the costs of which are recorded as an expenditure at the time of purchase.

Prepaid expenses, including the prepayment of services to vendors (e.g., prepaid insurance), are recorded similarly in the governmental fund statements.

Reserves of fund balance have been established for the inventory balances for governmental funds. Inventories in the proprietary funds and similar trust funds consist of both expendable supplies held for consumption and the cost of goods held for resale, the costs of which are recorded as an expense as they are used.

Inventories are valued at cost (first-in, first-out, or average cost). In the Governmental Activities column of the government-wide Statement of Net Assets, inventory and prepaid expenses are reported as an asset at cost when purchased, then expensed as used.

K. Capital Assets and Depreciation

Capital assets, which include property, equipment, intangibles and infrastructure (e.g. roads, bridges, ramps, and similar items), are reported in the governmental activities or business-type activities column of the government-wide financial statements. Fund financial statements for governmental and similar trust funds expense capital assets when purchased.

The policy of the primary government is to capitalize assets when the useful life is greater than one year and the acquisition cost meets the capitalization threshold. The primary government capitalizes all land and infrastructure. Buildings, improvements to land, and equipment are capitalized when the acquisition cost is $5,000 or greater. Intangible fixed assets are capitalized when the cost is $100,000 or more, except software which has a threshold of $500,000. Component units establish their own capitalization policy and that policy may vary from that of the primary government.

The Kentucky Historical Society, Kentucky Horse Park and Kentucky Department of Parks hold and care for the State's historical treasures. Among these are historical clothing; china; furniture and other furnishings; a variety of art and decorative art; political memorabilia; pioneer tools and equipment; guns and similar military artifacts; books, manuscripts, and photographs; musical instruments from Kentucky's musical legends; Native American artifacts; fossilized bones and prehistory artifacts. These assets are not capitalized or depreciated as the assets could not be valued and have inexhaustible useful lives.

Assets are depreciated on the straight-line basis over their estimated useful lives. The table below shows the useful life by asset type for the primary government. Infrastructure assets are not being depreciated, as the Commonwealth has elected to use the modified approach, as defined by GASB statement 34. As a result, certain maintenance and preservation costs are expensed when incurred. Additions and improvements to infrastructure assets are capitalized when capacity and efficiency has increased.

Asset	Useful Life (Expressed in Years)
Land improvements	10-60
Buildings	10-75
Machinery and equipment	3-25
Infrastructure	20-40
Intangibles	2-40

It is the Commonwealth's policy to capitalize interest expense incurred on significant assets in proprietary funds during their construction in accordance with FASB 62.

The primary government values capital assets at historical cost, estimated historical cost or fair market value at the time of donation. At June 30, 2003, the following table shows cost by asset type. The estimate of historical cost for the primary government was based on appraised value as of June 30 1986, indexed to the date of acquisition.

The Kentucky Center for the Arts Corporation's discretely presented component unit financial statements for Fiscal Year 2003, do not contain the Center's capital assets. The Finance and Administration Cabinet, Division of Statewide Accounting, Financial Reporting Branch adjusted the Commonwealth of Kentucky's Comprehensive Annual Financial Report to include the capital assets and depreciation of the Center in order to satisfy GAAP requirements.

L. Fund Equity Reserves and Designations

The Commonwealth's fund balance reserves represent those portions of fund balance (l) not appropriable for expenditure, or (2) legally segregated for a specific future use. Designated portions of fund balance represent tentative managerial plans for financial resource utilization in a future period.

M. Deferred Revenue

Deferred revenues are treated as liabilities in the governmental funds until all requirements for revenue recognition are met.

Cost by Asset type
(Expressed in Thousands)

Governmental Activities:	Historical Cost	Donated Fair Market Value	Estimated Cost	Totals
Land	$ 43,159	$ 26,718	$ 26,648	$ 96,525
Improvements other than buildings	8,640	525		9,165
Buildings	472,994	54,451	267,159	794,604
Equipment	442,597	2,165	53,501	498,263
Easements and other intangibles	16,179	16,125	654	32,958
Construction in progress	2,373,438			2,373,438
Infrastructure	14,588,395			14,588,395
Totals	$ 17,945,402	$ 99,984	$ 347,962	$ 18,393,348

Business-Type Activties:	Historical Cost	Donated Fair Market Value	Estimated Cost	Totals
Land	$ 5,683	$ 1,517	$ 12,203	$ 19,403
Improvements other than buildings	71,439	1,014		72,453
Buildings	134,050	1,214	49,588	184,852
Equipment	54,478	450	1,704	56,632
Easements and other intangibles	2,321			2,321
Construction in progress	64,754			64,754
Totals	$ 332,725	$ 4,195	$ 63,495	$ 400,415

N. Long-Term Obligations

Long-term liabilities that will be financed from governmental funds are presented in the Governmental Activities column of the government-wide Statement of Net Assets. This total reported amount of long-term liabilities includes the following:

1. Payments of principal on revenue bonds which are recorded as expenditures in the Debt Service Fund.

2. Compensated absences including accumulated unpaid vacation and compensatory time accruals. The amount accruing to proprietary funds and pension trust funds has been included in the respective funds when material. The policy of the Commonwealth is to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.5 to 15.0 hours per month, determined by length of service, with maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. Compensatory leave is granted to authorized employees on an hour-for-hour basis. June 30 estimated liabilities for both annual leave and compensatory leave are summarized in Note 16.

Sick leave for the Primary Government is earned one day per month with unlimited accumulation. All of the qualifying retiring employees' sick leave balances, expressed in months, shall be added to their service credit for the purpose of determining their annual retirement.

There is no liability in the accompanying financial statements for unpaid accumulated sick leave, since it is the Commonwealth's policy to record the cost of sick leave only when paid. See Note 16 for disclosure of the amount of this contingency. The component units have varying policies for compensated absences. Information regarding these policies is available in the audited financial statement of each component unit.

3. Outstanding capital lease obligations for governmental funds.

4. Judgements and contingent liabilities of governmental funds that will be paid with noncurrent resources.

5. Long-term liabilities of internal service funds.

Long-term obligations generally exclude those amounts reported as expenditures for compensated absences, judgements, contingencies, and employer pension contributions in the governmental funds since these amounts would normally be liquidated with expendable available financial resources.

Long-term liabilities of all proprietary and pension trust funds are reported in their individual fund statements. Long-term liabilities of enterprise and internal service funds are also presented in the government-wide Statement of Net Assets as a single total in the Business-type Activities and Governmental Activities columns respectively. Fiduciary funds' long-term liabilities are not displayed on the government-wide Statement of Activities.

O. Conduit Debt

This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued to benefit a third party that is not a part of the reporting entity. Although conduit debt obligations bear the Commonwealth's name as issuer, the Commonwealth has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. GAAP allow the State to refrain from reporting the conduit debt and the related asset. Since the State is not legally, morally, or in any other way responsible for the repayment of conduit debt, these items are not included in the financial statements. The State has $ 1,941,159,873.91 of conduit debt, the proceeds of which are used to promote the purposes set forth in KRS 103.200 and 103.210.

Note 2

CHANGES IN ACCOUNTING PRINCIPLES, REPORTING PRACTICES, AND PRIOR-PERIOD ADJUSTMENTS

The fund balances/net assets as previously reported have been restated or reclassified to conform to generally accepted accounting principles and to correct balances for erroneously recorded transactions.

Governmental Activities-Beginning net assets for the Commonwealth's governmental activities have been restated for amounts included in error last year. The net effect is a decrease of $79,846,000.

Business Type Activities-Beginning net assets for the Commonwealth's business type activities have been restated for the reasons noted below in the section for Enterprise Funds. The net effect is an increase of $135,938,000 on the net assets of the business type activities.

General Fund – The General Fund was restated to remove amounts included in error last year. The effect on fund balance is a decrease of $2,968,000.

Capital Projects Fund – The Capital Projects Fund was restated in order to correct prior period errors. The effect of these transactions on fund balance is a net increase of $6,281,000.

Debt Service Fund – The Debt Service Fund was restated to include amounts that were removed in error last year. The effect on fund balance is an increase of $964,000.

Special Revenue Fund – The Transportation Fund, the Agency Revenue Fund, the Other Special Revenue Fund, Special Benefits Fund and the Federal Fund within the Special Revenue Fund were restated for prior period errors. The restatements decreased Transportation and Special Benefits fund balances by $20,397,000 and $57,329,000 respectively and increased Agency Revenue, Other Special Revenue and Federal fund balances by $5,354,000, $4,560,000 and $52,000 respectively. The net effect of all restatements on the Special Revenue fund balance is a decrease of $67,760,000.

Enterprise Funds –The State Parks Fund, the Kentucky Lottery Corporation, and the Horse Park Fund within the Enterprise Funds were restated to include amounts not reported last year. The effect on net assets is an increase of $13,598,000, $924,000 and $2,000. The Insurance Administration Fund within the Enterprise Funds was restated for amounts included in error last year. The effect on net assets was an increase of $121,414,000. The net effect of these restatements on the Enterprise Funds net assets is an increase of $135,938,000.

Internal Service Funds –The Fleet Management Fund within the Internal Service Funds was restated to include amounts omitted in the prior year. The effect on net assets is an increase of $371,000. The Computer Services Fund within the Internal Service Funds was restated to include amounts previously omitted in error. The effect on net assets is an increase of $1,008,000. The Central Printing Fund within the Internal Service Funds was restated to include amounts previously omitted in error. The effect on net assets is an increase of $359,000. The Property Management Fund within the Internal Service Funds was restated to include amounts previously omitted in error. The effect on net assets is an increase of $2,491,000. The Risk Management Fund within the Internal Service Funds was restated. The effect on net assets is a decrease of $373,000. The net effect of all restatements on the Internal Service Fund balance is an increase of $3,856,000.

Fiduciary Funds- Pension Trust Funds-Deferred Compensation was restated to include amounts previously omitted in error. The effect on net assets is an increase of $3,187,000.

Kentucky Employees Retirement System, State Police Retirement System, and County Employees Retirement System, within Pension and (other employee benefit) Trust Funds were restated to include amounts previously omitted in error. The effect on net assets is an increase of $447,000, $7,000 and $745,000, respectively. The net effect of these restatements on the Pension Trust funds is an increase of $1,199,000.

Restatement of all Fiduciary Funds, Pension Trust Funds, results in an overall increase of $4,386,000.

Component Units – Authorities:

Kentucky Higher Education Assistance Authority (KHEAA)– KHEAA's net assets were restated to reflect the inclusion of the activities of the Kentucky Higher Education Student Loan Corporation(KHESLC). Effective July 1, 2003, KHESLC became a component unit of KHEAA. The effect on net assets is an increase of $78,600,000.

Kentucky State Fair Board – The Kentucky State Fair Board restated net assets to reflect a change in their asset capitalization policy. The effect on net assets is a decrease of $4,807,000.

Kentucky Center for the Arts Corporation– The Kentucky Center for the Arts restated net assets to reflect implementation of GASB 33. The effect on net assets is an increase of $700,000.

Kentucky Access – Kentucky Access restated net assets for errors made in the prior year. The effect on net assets is a decrease of $100,000.

Kentucky Council on Postsecondary Education – The Kentucky Council on Postsecondary Education was reported as part of the primary government last year. It is now reported under Component Units-Authorities, and has restated its beginning net assets for a prior period error. The effect on net assets for this individual component unit is an increase of $1,757,327. The effect of inclusion in Component Units-Authorities is an increase in net assets of $55,163,000.

Restatement of all Component Units-Authorities results in an overall increase in net assets of $50,956,000.

Component Units – Universities and Colleges:

Eastern Kentucky University - To reflect a correction for a prior period error, net assets were restated for Eastern Kentucky University. The effect on net assets is a decrease of $10,051,000.

Western Kentucky University– To reflect an error in the prior year CAFR, net assets for Western Kentucky University were restated. The effect on net assets is a decrease of $31,034,000.

Murray State University – To reflect a change in the method of accounting for donations in preparation for the implementation of GASB 39, net assets for Murray State University were restated. The effect on net assets is a decrease of $19,436,000.

Northern Kentucky University – To reflect a correction for a prior period error, net assets were restated for Northern Kentucky University. The effect on net assets is a decrease of $1,149,000.

Kentucky State University– To reflect a correction for a prior period error, net assets for Kentucky State University were restated. The effect on net assets is an increase of $1,701,000.

Restatement of all Component Units-Universities and Colleges results in an overall decrease in net assets of $59,969,000.

Note 3

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Enterprise Funds – The Insurance Administration Fund has a net assets deficit of $835,638,000. The accumulated claims liability is estimated by actuarial methods for the risk pools, which will be funded in future periods.

B. Internal Service Funds – The Risk Management Fund has a net assets deficit of $104,967,000. The deficit is the result of accumulated claims liabilities of the Commonwealth's self-insured worker's compensation programs, and is to be funded in future periods.

C. Private-Purpose Trust Funds – Kentucky's Affordable Prepaid Tuition Plan Trust has a net assets deficit of $9,613,000 resulting from liabilities which will be funded in future periods.

D. Component Units – Authorities – The Kentucky School Facilities Construction Commission has a net assets deficit of $572,898,612. The Commission finances local school district projects, and carries the liabilities but not the assets. The Kentucky Local Correctional Facilities Construction Authority has a net assets deficit of $18,330,651 resulting from the recognition of loan commitments before financing was arranged. The Authority will issue bonds to satisfy these commitments in the future.

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Note 4

DISAGGREGATION OF ACCOUNTS PAYABLE AND ACCOUNTS RECEIVABLE

Accounts payable for the Commonwealth of Kentucky are amounts owed by the State as of June 30, 2003. Those liabilities that must be paid within one year are considered current. Amounts due after one year are deemed noncurrent accounts payable. Accounts receivable are amounts owed to the State. Similar to accounts payable, any amounts to be received within one year are classified as current. All other receivables are noncurrent. For Governmental Activities and Business-Type Activities, the line indicating "Accounts Payable" and "Net Receivables" are described below.

Amounts reported as "Taxes Receivable" are significant to the State. Taxes receivable report those tax amounts owed to the Commonwealth of Kentucky that remain uncollected as of June 30, 2003. All receivables are reported net of an Allowance for Uncollectibles to reflect the true value of receivables. Fines, forfeitures, and license fees are recognized as revenue when received and, therefore, do not require the recognition of accounts receivable. The "Current Taxes Receivable" for Governmental Activities and Business-Type Activities are described below.

Under the modified accrual basis of accounting, as used in the fund statements, amounts outstanding but owed at the end of the year may be recorded in one of two ways. If the receivable is measurable and expected to be collected within 30 days, revenue is recognized. However, if the receivable is not expected to be collected within 30 days, it is not considered to be available to liquidate the liabilities of the current period and will be reported as deferred revenue. Furthermore, unearned revenue is always reported as deferred revenue. Deferred revenue is reported as a liability until meeting the criteria for revenue recognition.

Disaggregation of Payables and Receivables
(Expressed in Thousands)

	Governmental Activities			Total Governmental Activities	Business-Type Activities	Total Primary Government
	Major Funds	Non-major Funds	Internal Service Funds		Major Funds	
Current Payables						
Personal Services	$ 88,538	$ 121	$ 2,971	$ 91,630	$ 1,868	$ 93,498
Utilities, Rental and Other Services	3,261	673	1,290	5,224	141	5,365
Commodities and Supplies	51,370	11,333	82	62,785	1,598	64,383
Grants and Subsidies	615,233	2,993	8	618,234		618,234
Capital Outlay	80,411		103	80,514	1,882	82,396
Travel	1,206	4	11	1,222	2	1,224
Other Services	(45,283)	2,354	802	23,253	34,238	57,491
Total Current Payables	$ 794,736	$ 17,478	$ 5,267	$ 882,862	$ 39,729	$ 922,591
Current Receivables						
Charges for Services	$ 95,477	$ 71,372	$ 435	$ 167,284	$ 109,870	$ 277,154
Taxes Receivable	1,305,443	11,800		1,317,243		1,317,243
Investment Receivable	33,121	9,342	155	42,618	2,964	45,582
Intergovernmental Revenue	267,204			267,204		267,204
Allowances for Uncollectables	(659,168)	(3,672)		(662,840)	(3,091)	(665,931)
Other	485,129	39,672	429	525,230	25,580	550,810
Total Current Receivables	$ 1,527,206	$ 128,514	$ 1,019	$ 1,656,739	$ 135,323	$ 1,792,062

Taxes Receivable
(Expressed in Thousands)

	Governmental Activities		Total Primary Government
	Major Funds	Non-Major Funds	
Current Taxes Receivable			
Sales and Gross Receipts	$ 288,406	$	$ 288,406
Individual Income	208,182		208,182
Corporate	14,416	882	15,298
Property	7,966	27	7,993
Coal Severance	13,749		13,749
Inheritance and Estate	7,262		7,262
Miscellaneous	765,462	10,891	776,353
Total Current Taxes Receivable	$ 1,305,443	$ 11,800	$ 1,317,243

Note 5

EQUITY IN POOLED CASH AND INVESTMENTS, CASH, AND INVESTMENTS

The Commonwealth maintains a cash and investment pool that is available for use by all funds under the auspices of the State Investment Commission as authorized under KRS 42.500 et al. In addition, investments are separately held by several of the State's funds and Component Units. Legally authorized investments vary by fund but generally include: obligations of or guaranteed by the United States; obligations of any corporation of the United States Government; asset backed securities; U.S. dollar denominated corporate securities; collateralized certificates of deposit; bankers' acceptances; commercial paper; and repurchase agreements. In addition to these, pension plans and certain Component Units are permitted to purchase common stocks, corporate bonds and real property and mineral rights. The Commonwealth is also eligible to invest in reverse repurchase agreements.

Deposits - At year end, the carrying amount of the Commonwealth's deposits for the Primary Government was $1,110,855,673 and $866,545,819 for the Component Units. At year end, the bank balance was $1,110,826,141 and $866,428,341 for the Primary Government and Component Units, respectively. The bank balance of the Primary Government administered by the State Treasurer was covered by Federal depository insurance or by collateral held by the Commonwealth or the Commonwealth's agent in the Commonwealth's name. The following table categorizes the Primary Government's and Component Units' deposits as: (1) insured or collateralized with securities by the entity or by its agent in the entity's name; (2) collateralized with securities held by the pledging institution's trust department or agent in the entity's name; or (3) uncollateralized where securities are held by the pledging institution but not in the entity's name.

Cash - Primary Government

	Categories			Total	Carrying
	1	2	3	Bank Balance	Amount
Cash	$ 507,069,994	$	$ 269,820	$ 507,334,204	$ 507,339,814
Cash with fiscal agents	42,793,561			42,814,666	42,793,561
Imprest & change	6,162,321			6,162,321	6,162,321
Money market	5,690,442		124,872,348	130,517,763	130,562,790
Total	$ 561,716,318	$	$ 125,142,168	686,828,954	686,858,486
Cash on deposit with federal government				423,997,187	423,997,187
Total Cash				$ 1,110,826,141	$ 1,110,855,673

Cash - Component Units

	Categories			Total	Carrying
	1	2	3	Bank Balance	Amount
Cash	$ 716,967,742	$ 25,858,510	$ 27,970,041	$ 770,678,815	$ 770,796,293
Money market	17,226,015	55,195,376	18,923,473	91,344,864	91,344,864
Nonnegotiable certificates of deposit	505,927	3,898,735		4,404,662	4,404,662
Total Cash	$ 734,699,684	$ 84,952,621	$ 46,893,514	$ 866,428,341	$ 866,545,819

Investments - The Commonwealth holds investments both for its own benefit and as an agent for other related parties. The major investment programs conducted for the direct benefit of the Commonwealth are administered by the Office of Financial Management. The credit risk of those investments held in the Commonwealth's investment pool is all Category (1). The credit risk mix of the retirement systems, component units, and other Commonwealth agencies is disclosed in the financial statement footnotes of the individual entities. The following tables categorize the Primary Government's and Component Units' investments as: Category (1) those investments which are insured or registered, or held by the Commonwealth of Kentucky or its agent in the Commonwealth's name; Category (2) those investments which are uninsured and unregistered with securities held by the counterparty's trust department or agent in the Commonwealth's name; and Category (3) those investments which are uninsured and unregistered for which the securities are held by the counterparty or by its trust department or agent but not in the Commonwealth's name.

Statutes require that securities underlying repurchase agreements must have a fair value of at least 102 percent of the cost of the repurchase agreement. The fair value of securities underlying repurchase agreements fell below this required level on a few occasions during the year; however, no losses were sustained due to the fall in collateralization levels. The collateralization is monitored on a weekly basis (as specified within 200 KAR 14.081) and at any point where the collateralization falls below 102 percent of the cost

Investments - Primary Government

	Categories			Net	
	1	2	3	Investment	Fair Value
Collaterized mortgage obligations	$ 82,261,574	$	$	$ 80,403,586	$ 82,261,574
Commercial paper	26,278,795		58,709,639	84,394,892	84,988,434
Common stocks	11,773,679,254	104,553,523	271	11,839,626,803	11,878,233,048
Corporate bonds	3,471,396,167	61,773,660		3,521,618,812	3,533,169,827
Government securities	4,768,885,929	59,076,632	143,240,471	4,953,612,997	4,971,203,032
Negotiable certificates of deposit	496,449			485,236	496,449
Open-end mutual funds	903,163,143	25,529,896		928,693,039	928,693,039
Repurchase agreements	1,486,613,129		7,914,419	1,493,872,202	1,494,527,548
Securities lending collateral			776,713,902	776,713,902	776,713,902
State and municipal obligations	129,283,352			126,991,313	129,283,352
Totals	$ 22,642,057,792	$ 250,933,711	$ 986,578,702	23,806,412,781	23,879,570,205
Government securities				46,911,961	46,911,961
Securities lending collateral				3,788,579,905	3,788,579,905
Mortgages				561,204,601	561,204,601
Real estate				375,536,592	375,536,592
State investment pool				135,301,618	135,301,618
Held by brokers/dealers under securities loaned:					
Common stocks				1,374,991,683	1,374,991,683
Corporate bonds				128,430,913	128,430,913
Government securities				1,819,909,582	1,819,909,582
Total Investments				$ 32,037,279,636	$ 32,110,437,060

Investments - Component Units

	Categories			Net	
	1	2	3	Investment	Fair Value
Collaterized mortgage obligations	$ 2,457,455	$	$	$ 2,457,455	$ 2,457,455
Commercial paper		11,412,272		11,412,272	11,412,272
Common stocks	319,870,111			319,870,111	319,870,111
Corporate bonds	86,069,155	33,053,000		119,122,155	119,122,155
Equity in Health Care Corps	36,686,508			36,686,508	36,686,508
Government securities	194,538,911	249,803,352		439,652,969	444,342,263
Negotiable certificates of deposit	2,660,759			2,543,587	2,660,759
Mutual funds	26,405,481			14,922,640	26,405,481
Repurchase agreements	328,941,452	6,005,821		334,947,273	334,947,273
Other	853,887	6,543,469	29,173,538	36,570,894	36,570,894
Totals	$ 998,483,719	$ 306,817,914	$ 29,173,538	1,318,185,864	1,334,475,171
Guaranteed investment contracts				101,328	101,328
Mortgages				49,090,000	49,090,000
Mutual funds				349,770,885	349,770,885
State investment pool				178,185,301	178,399,299
Total Investments				$ 1,895,333,378	$ 1,911,836,683

of the repurchase agreement, the seller/borrower is contacted and the situation is normally rectified within two business days.

Securities Lending Program - State statutes authorize the Commonwealth to enter into securities lending agreements. Collateral received in the transfer are of the type which the Commonwealth is legally authorized to hold. The Commonwealth does not have the ability to pledge or sell collateral securities without a borrower default. The fair value of the securities received in the agreement is 102 percent of the value of the securities transferred. The securities transferred are a part of the total investments reported above. The securities being held are not reported as a part of the total investments. The Commonwealth retains the interest income on the securities being transferred and receives 75 percent of the profit earned by the agent with a floor of 10.0 basis points. During the year, the Commonwealth earned $3,110,970 in securities lending income. On June 30, 2003, the fair value of the securities transferred was $1,288,591,177 and the fair value of the securities the Commonwealth was holding was $1,316,375,137. The collateralization requirements and monitoring procedures in the securities lending program are the same as those requirements in regard to repurchase agreements. At year end, the Commonwealth had no credit risk exposure to borrowers because the amounts the Commonwealth owes the borrowers exceed the amounts the borrowers owe the Commonwealth.

Options - The Commonwealth's investment strategy includes the use of derivatives as a tool in managing market risk and providing an opportunity for enhanced return. The Commonwealth selectively utilizes put and call options on United States Treasury securities. These options are on a covered basis, where the Commonwealth holds either cash or securities sufficient to meet the obligation, should the option be exercised. On June 30, 2003, the portfolio had no obligations under option. The Commonwealth also purchases securities that have built in covered calls (callable agency securities). The risk in holding these securities is the risk that the security can be called (bought back) by the issuing agency at par either on or after a specific date.

The following chart shows current and noncurrent cash and investments for the governmental, business type, and fiduciary activities. Discretely presented component units are not included in this chart.

Cash and Investment Summary

As reported in the Statement of Net Assets and Statement of Fiduciary Net Assets

	Current Cash And Investments	Noncurrent Investments	Total
Governmental activities	$ 542,653,232	$ 1,345,234,679	$ 1,887,887,911
Business-type activities	487,821,072	568,613,897	1,056,434,969
Fiduciary activities	1,578,274,952	28,735,132,667	30,313,407,619
	$ 2,608,749,256	$ 30,648,981,243	$ 33,257,730,499

Note 6

CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003
(Expressed in Thousands):

	Primary Government			
Primary Government:	**Beginning Balance Restated**	**Additions**	**Decreases**	**Ending Balance**
Governmental Activities				
Capital assets, not being depreciated:				
Land	$ 95,178	$ 1,670	$ (323)	$ 96,525
Construction in progress	2,318,253	903,651	(848,466)	2,373,438
Infrastructure	14,014,450	648,395	(74,450)	14,588,395
Total capital assets not being depreciated	16,427,881	1,553,716	(923,239)	17,058,358
Capital assets, being depreciated/amortized:				
Improvements other than buildings	7,116	2,049		9,165
Buildings	758,099	39,844	(3,339)	794,604
Machinery and Equipment	483,217	56,574	(41,528)	498,263
Easements and Other Intangibles	13,569	19,389		32,958
Total capital assets, being depreciated/amortized	1,262,001	117,856	(44,867)	1,334,990
Less accumulated depreciation/amortization:				
Improvements other than buildings	(4,144)	(541)		(4,685)
Buildings	(297,422)	(24,289)	1,834	(319,877)
Machinery and Equipment	(293,059)	(46,175)	36,867	(302,367)
Easements and Other Intangibles	(750)	(2,137)		(2,887)
Total accumulated depreciation	(595,375)	(73,142)	38,701	(629,816)
Total capital assets, being depreciated/amortized, net	666,626	44,714	(6,166)	705,174
Governmental activities capital assets, net	$ 17,094,507	$ 1,598,430	$ (929,405)	$ 17,763,532
Business-type activities				
Capital assets, not being depreciated:				
Land	$ 18,558	$ 845	$	$ 19,403
Construction in progress	64,569	15,514	(15,329)	64,754
Total capital assets, not being depreciated	83,127	16,359	(15,329)	84,157
Capital assets, being depreciated/amortized:				
Improvements other than buildings	70,851	1,602		72,453
Buildings	170,638	14,316	(102)	184,852
Machinery and Equipment	51,226	6,883	(1,477)	56,632
Easements and Other Intangibles	2,321			2,321
Total capital assets, being depreciated/amortized	295,036	22,801	(1,579)	316,258
Less accumulated depreciation for:				
Improvements other than buildings	(43,835)	(1,352)		(45,187)
Buildings	(60,320)	(5,453)	589	(65,184)
Machinery and Equipment	(38,831)	(3,064)	1,478	(40,417)
Easements and Other Intangibles	(62)	(116)		(178)
Total accumulated depreciation	(143,048)	(9,985)	2,067	(150,966)
Total capital assets, being depreciated/amortized, net	151,988	12,816	488	165,292
Business-type activities capital assets, net	$ 235,115	$ 29,175	$ (14,841)	$ 249,449

Depreciation expense, charged to functions/programs of the primary government as follows:

	Governmental activities	Business-type activities
General Government	$ 6,148	$
Legislative and Judicial	1,720	
Commerce	1,954	
Education and Humanities	5,295	
Human Resources	3,265	
Justice	13,309	
Natural Resources and Environmental Protection	3,342	
Public Protection and Regulation	653	
Transportation	12,829	
Capital assets held by government's internal service funds are charged to the various functions based on usage of the assets	24,627	
State Parks		6,827
Lottery Corporation		2,184
Horse Park		585
Insurance Administration		389
Total depreciation expense by activities	$ 73,142	$ 9,985

Discretely presented major component units
Capital asset activity for the year ended June 30, 2003
(Expressed in Thousands):

	Component Units			
	Beginning Balance Restated	Additions	Retirements	Ending Balance
Capital assets, not being depreciated:				
Land	$ 85,288	$ 4,742	$ (656)	$ 89,374
Construction in progress	259,839	127,336	(236,481)	150,694
Totals, capital assets not being depreciated	345,127	132,078	(237,137)	240,068
Capital assets, being depreciated/amortized:				
Improvements other than buildings	65,326	5,216		70,542
Buildings	1,673,969	244,539	(2,619)	1,915,889
Machinery and Equipment	731,207	81,950	(36,891)	776,266
Easements and Other Intangibles	7,737	1,309		9,046
Total capital assets, being depreciated/amortized	2,478,239	333,014	(39,510)	2,771,743
Less accumulated depreciation for:				
Improvements other than buildings	(40,953)	(2,398)	2	(43,349)
Buildings	(711,021)	(47,353)	631	(757,743)
Machinery and Equipment	(463,724)	(59,232)	31,893	(491,063)
Easements and Other Intangibles	(5,870)	(20)		(5,890)
Total accumulated depreciation	(1,221,568)	(109,003)	32,526	(1,298,045)
Total capital assets, being depreciated/amortized, net	1,256,671	224,011	(6,984)	1,473,698
Component units capital assets, net	$ 1,601,798	$ 356,089	$ (244,121)	$ 1,713,766

Depreciation expense, charged to functions/programs of discretely presented major component units as follows:

Kentucky Housing Corporation	$ 700
Kentucky Higher Education Assistance Authority	1,780
University of Kentucky	67,648
University of Louisville	26,281
Kentucky Community and Technical College System	12,594
Total depreciation expense by activities	$ 109,003

Note 7

Interfund Transactions

The table below shows the interfund operating transfers for the fiscal year 2003
(Expressed in Thousands):

	Transfers Out				
Transfers In	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund	Capital Projects Fund
General Fund	$	$	$ 1,219	$ 56,785	$ 28,515
Transportation Fund			19		1,198
Federal Fund				1,471	
Agency Revenue Fund	35,927		20,515		4,680
Capital Projects	2,950	6,405	481	12,958	
Non-Major Governmental Funds	406,208	178,196	3,484	183,222	17,972
State Parks Fund	28,957		8		7,959
Kentucky Horse Park Fund	1,800				700
Insurance Administration Fund					96
Unemployment Compensation Fund					
Internal Service Funds	1,633			340	11,433
Fiduciary Funds	313				
Total	$ 477,788	$ 184,601	$ 25,726	$ 254,776	$ 72,553

Reasons for transfers:
1) to move resources from the General Fund, for budgetary purposes, to the fund that will expend them; 2) to move resources from funds recording the revenue to the Debt Service Fund, for debt service payments ; 3) to move resources from the funds recording the revenue to the Capital Projects Fund to finance acquisition of capital assets; and 4) to move resources from the Kentucky Lottery Corporation to the General Fund.

Interfund Receivables and Payables

The table below shows the interfund receivables and payables for the fiscal year 2003
(Expressed in Thousands):

	Interfund Payables				
Interfund Receivables	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund	Capital Projects Fund
General Fund	$	$ 7	$ 3,612	$ 5,314	$ 41
Transportation Fund	1,318		10,989	7,300	45
Federal Fund	3,863	55,861		26,449	4
Agency Revenue Fund	16,300	1,642	60,066		63
Capital Projects Fund	4,395	36	354	360	
Non-Major Governmental Funds	20,241	758	105,373	50,814	5
State Parks Fund	75	2	24	32	503
Kentucky Horse Park Fund	1			6	
Insurance Administration Fund	560		5	408	
Unemployment Compensation Fund					
Internal Service Funds	1,100	622	238	332	3
Fiduciary Funds	92			1	
Totals	$ 47,945	$ 58,928	$ 180,661	$ 91,016	$ 664

Reasons for interfund payables and receivables:
1) to record sales by proprietary funds to other funds; 2) to record reimbursements of expenditures made in one fund for another fund; and 3) to distribute program cost among funds.

Transfers Out

Non-Major Governmental Funds	State Parks Fund	Kentucky Lottery Corporation	Kentucky Horse Park Fund	Insurance Administration Fund	Unemployment Compensation Fund	Internal Service Funds	Fiduciary Funds	Total
$ 69,215	$	$ 171,000	$	$ 81,850	$	$ 10,877	$ 16,980	$ 436,441
428								1,645
3,441					500			5,412
359,942				7,870		1,210	40	430,184
38,963	1,390		75			2,837		66,059
188,543	441	3,629		1,396	3,386		42	986,519
184								37,108
								2,500
								96
5								5
805								14,211
								313
$ 661,526	$ 1,831	$ 174,629	$ 75	$ 91,116	$ 3,886	$ 14,924	$ 17,062	$ 1,980,493

Interfund Payables

Non-Major Governmental Funds	State Parks Fund	Kentucky Horse Park Fund	Insurance Administration Fund	Unemployment Compensation Fund	Internal Service Funds	Fiduciary Funds	Total
$ 153,796	$ 379	$	$	$	$ 798	$	$ 163,947
					10	6,900	26,562
4,166			28	500	2		90,873
49,856	30	11	35	1,385	117	2,249	131,754
52	505				172		5,874
120,486	157		4	3,615	4		301,457
156			1		1		794
							7
					68		1,041
4							4
14	37	9	2		34		2,391
							93
$ 328,530	$ 1,108	$ 20	$ 70	$ 5,500	$ 1,206	$ 9,149	$ 724,797

Note 8

PENSION PLANS

Under the provisions of Kentucky Revised Statutes (KRS) 61.645, the Board of Trustees of the Kentucky Retirement Systems administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS).

The Commonwealth contributes to the KERS, a multiple-employer cost sharing defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Per KRS 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend the contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. The System's administrative budget and employer contribution rates are subject to the approval of the Kentucky General Assembly. Employee contribution rates are set by the statute and may be changed only by the Kentucky General Assembly.

The Commonwealth is the predominant employer for KERS and for note disclosure purposes will be considered as a single employer plan.

CERS, a multiple employer cost sharing defined benefit pension plan, provides for retirement, disability, and death benefits to plan members.

SPRS is a single-employer defined benefit plan that covers all full-time State Troopers employed in a hazardous duty position by the Kentucky State Police. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Per KRS 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend the contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. The financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate is based on appraisals. Investments that do not have an established market are reported at estimated fair value.

Cost-of-living adjustments (COLA) are provided at the discretion of the State Legislature.

The allocation of insurance premiums paid by the Fund and amounts withheld from members' benefits is based on years of service with the Systems, as follows:

Years of Service	Percent Paid by Insurance Fund	Percent Paid by Member Through Payroll Deduction
20 or more	100%	0%
15 - 19	75%	25%
10 - 14	50%	50%
4 - 9	25%	75%
Less than 4	0%	100%

The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the above mentioned retirement systems. That report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

The Judicial Retirement Plan is a single employer defined benefit plan, which provides retirement, disability and death benefits to plan members and their beneficiaries. COLA are provided at the discretion of the State Legislature, except that existing legislation provides that a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.5125 percent benefit rate and the 60 month average earnings of the position held by the member at retirement. Contribution rates are established by KRS 21.525.

The Legislators' Retirement Plan is a single employer defined benefit plan providing retirement, disability, and death benefits to plan members and their beneficiaries. COLA are provided at the discretion of the State Legislature, except that existing legislation

provides that a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.925 percent benefit rate and the 60 month average earnings of the position held by the member at the time of his retirement. Contribution rates are established by KRS 21.525.

The financial statements are prepared using the accrual basis of accounting. Plan member contributions to the plan are recognized when due and the employer has made formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the Plans.

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

The Judicial Form Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the above mentioned retirement systems. That report may be obtained by writing to the Judicial Form Retirement System, P.O. Box 791, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-5310.

The Kentucky Teachers' Retirement System (KTRS) was established by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Section 990 of the Kentucky Revised Statutes. KTRS is a multiple-employer cost sharing defined benefit plan established to provide pension plan coverage for local school districts and other educational agencies in the state.

The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching are recognized in the fiscal year due. Plan investments are reported at fair value. Short-term securities are carried at cost, which approximates fair value. Fixed income and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges and security pricing services. Real estate is primarily valued based on appraisals performed by independent appraisers.

COLA are one and one-half percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

The Kentucky Teachers' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601.

	Kentucky Legislators' Retirement Plan	Kentucky Judicial Retirement Plan
Contribution rates:		
State	45.20%	22.84%
Plan members	5.00%	5.00%
Portion of State Contribution for Health Insurance		
Annual pension costs (Thousands)	$651	$2,134
Contributions made (Thousands)	$651	$2,134
Actuarial valuation date	June 30, 2003	June 30, 2003
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	Interest + 1% Unfunded past liability	Interest + 1% Unfunded past liability
Remaining amortization period	25 years	25 years
Asset valuation method	Five-year average of market to book value	Five-year average of market to book value
Actuarial assumptions:		
Investment rate of return	8.00%	8.00%
Inflation Rate		
Projected salary increases	5.50%	5.50%
Increases in Health Insurance Cost	6% - 10%	6% - 10%
(Dollar amounts in thousands)		
ARC	$ 651	$ 2,134
Interest on NPO		277
Adjustment to ARC		(277)
Annual pension cost	651	2,134
Contributions made	651	2,134
Increase (Decrease) in NPO		
NPO beginning of year		3,465
NPO end of year	$	$ 3,465

State Police Retirement System	Kentucky Employees Retirement System	Kentucky Teachers' Retirement System
21.58% 8.00%	5.89% - 18.84% 5% - 7%	13.105% - 13.840% 6.160% - 9.855%
21.58%	5.89% -12.66%	0.75%
$10,211	$123,374	$322,047
$7,634	$96,139	$322,047
June 30, 2003	June 30, 2003	June 30, 2003
Entry age normal	Entry age normal	Projected unit credit
Level percent closed	Level percent closed	Level percent open
30 years	30 years	30 years
Five-year average of market to book value	Five-year average of market to book value	Five-year average of market to book value
8.25%	8.25%	7.50%
3.50%	3.50%	4.00%
6.50%	6.50%	4.00% - 8.10%
7.5% - 10%	7.5% - 10%	9% - 13.5%
$ 9,398	$ 121,309	$ 322,047
892	5,259	
(541)	(3,194)	
9,748	123,374	322,047
7,634	96,139	322,047
2,114	27,235	
10,807	63,744	
$ 12,921	$ 90,979	$

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Kentucky Employees Retirement System						
Non-Hazardous						
June 30, 2001	$ 6,844,742,687	$ 5,444,035,294	$ (1,400,707,393)	1.257	$ 1,505,299,220	(0.931)
June 30, 2002	6,654,084,196	6,026,094,764	(627,989,432)	1.104	1,595,809,458	(0.394)
June 30, 2003	6,351,318,832	6,520,463,188	169,144,356	0.974	1,658,604,696	0.102
Hazardous						
June 30, 2001	$ 361,677,475	$ 285,193,761	$ (76,483,714)	1.268	$ 122,857,992	(0.623)
June 30, 2002	376,384,302	322,069,164	(54,315,138)	1.169	125,275,925	(0.434)
June 30, 2003	385,925,722	356,879,133	(29,046,589)	1.081	129,088,956	(0.225)
State Police Retirement System						
June 30, 2001	$ 456,160,709	$ 356,211,860	$ (99,948,849)	1.281	$ 44,646,678	(2.239)
June 30, 2002	438,955,465	380,790,346	(58,165,119)	1.153	44,314,696	(1.313)
June 30, 2003	413,063,576	414,881,459	1,817,883	0.996	43,760,832	0.042
Judicial Retirement Plan						
June 30, 2001	$ 280,506,852	$ 172,720,874	$ (107,785,978)	1.624	$ 25,520,504	(4.224)
June 30, 2002	265,693,347	185,310,835	(80,382,512)	1.434	26,208,973	(3.067)
June 30, 2003	234,298,628	202,838,112	(31,460,516)	1.155	26,159,412	(1.203)
Legislators' Retirement Plan						
June 30, 2001	$ 70,853,489	$ 47,068,104	$ (23,785,385)	1.505	$ 5,075,759	(4.686)
June 30, 2002	67,892,070	51,095,992	(16,796,078)	1.329	4,879,301	(3.442)
June 30, 2003	59,379,470	49,168,446	(10,211,024)	1.208	2,695,000	(3.789)
Kentucky Teachers' Retirement System						
June 30, 2001	$ 13,299,200,000	$ 14,642,100,000	$ 1,342,900,000	0.908	$ 2,213,772,000	0.607
June 30, 2002	13,588,847,000	15,695,574,000	2,106,727,000	0.866	2,313,663,000	0.911
June 30, 2003	13,863,786,000	16,594,781,000	2,730,995,000	0.835	2,497,731,000	1.093

Membership of the retirement systems, at June 30, 2003, is shown in the following table:

	Kentucky Employees Retirement System		County Employees Retirement System		State Police Retirement System	Judicial Retirement Fund	Legislators' Retirement Fund	Kentucky Teachers' Retirement System	TOTAL
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous					
Retirees and beneficiaries receiving benefits	27,182	1,365	27,057	3,787	966	233	130	34,708	95,428
Terminated plan members - vested	3,892	169	5,147	193	43	25	52	5,478	14,999
Terminated plan members - non-vested	17,320	1,233	30,573	873	186				50,185
Active plan members	49,586	4,203	83,142	9,587	1,022	251	118	71,097	219,006
Total Members	97,980	6,970	145,919	14,440	2,217	509	300	111,283	379,618
Number of participating employers	410		1,367		1	1	1	202	1,982

Three year trend for contributions
(Expressed in thousands):

	Annual Required Contribution	Percentage Contributed
Kentucky Employees Retirement System		
Non-Hazardous		
2001	$ 88,662	101.9%
2002	93,993	101.8%
2003	96,958	75.2%
Hazardous		
2001	$ 23,146	103.1%
2002	23,601	100.9%
2003	24,351	95.3%
State Police Retirement System		
2001	$ 9,634	99.9%
2002	9,563	99.9%
2003	9,398	81.2%
Judicial Retirement Plan		
2001	$ 3,878	100.0%
2002	3,878	105.6%
2003	2,134	100.0%
Legislator's Retirement Plan		
2001	$ 692	100.0%
2002	692	110.0%
2003	651	109.0%
Kentucky Teachers' Retirement System		
2001	$ 262,800	100.0%
2002	284,795	100.0%
2003	322,047	100.0%

Note 9

EMPLOYEE BENEFIT PLAN

Deferred Compensation

Employees of the Commonwealth, its cities, counties, and local school districts are eligible to participate in two deferred compensation plans as authorized by the United States Internal Revenue Code. These plans, labeled 457 and 401(k), after sections of the Code, are administered by the Personnel Cabinet and an independent Plan administrator. The Commonwealth, through a board of trustees as defined in KRS 18A.245, selects the administrator to oversee the daily operations and technical compliance of the Plans with applicable sections of the Internal Revenue Code. The Commonwealth's responsibilities consist of withholding payroll deductions for its employees, collecting employee withholdings of the cities, counties, and local school districts, and remitting those withholdings to the plan administrators holding fixed and variable annuity contracts (carriers). Both Plans permit employees to defer collecting a portion of their salary until future years. This deferment is not available to employees until termination, retirement, death, or unforeseeable emergency. Assets of the 457 Plan and the 401(k) Plan are reported in a Pension Trust Fund within the fiduciary fund type, in compliance with Internal Revenue Code and GASB 32 requirements.

Of the $434,942,339 in the 457 Plan at June 30, 2003, $252,109,566 was applicable to the Commonwealth, while the remaining $182,832,773 represents assets of the other jurisdictions participating in the Plan. The 401(k) Plan had total plan assets of $464,137,776 at June 30, 2003, of which $199,819,083 was applicable to the state, while the remaining $264,318,693 represents other participating jurisdictions.

Note 10

LEASE OBLIGATIONS

The Commonwealth has entered into various leases for buildings and equipment. Generally, leases contain termination clauses providing for cancellation after a 30, 60, or 90 days written notice. In addition, certain leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly. It is expected that in the normal course of business most of these leases will be replaced by similar leases.

A portion of the capital lease liability for the University and College Fund is applicable to leases with the Commonwealth.

Changes in leases payable for the year ended June 30, 2003, are summarized in Note 15, Changes in Long-Term Obligations.

At June 30, 2003, capitalized leases included Buildings and Equipment as follows (Expressed in Thousands):

Buildings and Equipment acquired through capital leases are recorded at the lessor of fair market value or present value of future minimum lease payments.

	Primary Government		
	Governmental Activities	Business-Type Activities	Component Units-Major
Buildings	$	$	$ 45,435
Equipment	33,067	363	13,020
Total	33,067	363	58,455
Less: Accumulated depreciation	(10,919)	(140)	(16,631)
Total Net of Depreciation	$ 22,148	$ 223	$ 41,824

Future minimum rental commitments for capitalizable leases as of June 30, 2003, are as follows (Expressed in Thousands):

	Primary Government		Component Units-Major	
	Governmental Activities	Business-Type Activities	University and College Funds	Total
2004	$ 9,537	$ 99	$ 15,223	$ 24,859
2005	6,050	88	6,361	12,499
2006	3,875	71	4,363	8,309
2007	2,039	18	3,697	5,754
2008	1,741		3,583	5,324
2009-2013			17,920	17,920
2014-2018			17,906	17,906
2019-2023			4,898	4,898
2024-2028			481	481
Total minimum lease payments	23,242	276	74,432	97,950
Less: Amount representing interest (3.84-23.32%)	(2,033)	(42)	(20,345)	(22,420)
Present value of future minimum lease payments	$ 21,209	$ 234	$ 54,087	$ 75,530

Note 11

RISK MANAGEMENT

The Commonwealth is exposed to various risks of loss related to torts: theft, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commonwealth utilizes the Risk Management Fund to account for these activities.

Fire and Tornado Insurance:
The Fire and Tornado Insurance Program is established to account for and finance its uninsured risk of loss arising from damages to State buildings and personal property. Under this program, coverage is provided for up to a maximum of $500,000 per occurrence of loss for each insured subject of risk. The Fire and Tornado Insurance Program purchases reinsurance for claims in excess of coverage provided by the Program. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The claims liability of $1,407,000 reported in the Program at June 30, 2003, is based on the requirements of GASB 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Program's claims liability amount in Fiscal Years 2003 and 2002 were:

	Fiscal Year 2003	Fiscal Year 2002
Beginning of fiscal year liability	$ 1,900,000	$ 1,127,623
Incurred claims	1,115,304	13,053,967
Changes in estimates		
Claims payments	(1,608,304)	(12,281,590)
Balance at Fiscal Year End	$ 1,407,000	$ 1,900,000

Self-Insured Workers' Compensation:
The Workers' Compensation Program is self-insurance for the benefit of the Commonwealth's employees, and others as described in KRS 18A.370. Losses payable by the Program include medical claims and loss of wages as a result of an employment related injury. Premiums are established based upon estimated claims and administrative cost for the coming fiscal year. The Program carries

reinsurance coverage for large individual or incident claims between $5,000,000 and $20,000,000.

The actuarially determined aggregate claims liability of $94,552,483 reported in the Program at June 30, 2003, includes both reported and unreported insured events, including estimates of future payments of losses and related claims' adjustments. Changes in the Program's claims liability amount in Fiscal Years 2003 and 2002 were:

	Fiscal Year 2003	Fiscal Year 2002
Beginning of fiscal year liability	$ 90,306,276	$ 80,696,544
Claims and claims adjustments incurred:		
Current year	21,341,688	19,500,795
Prior year	(2,688,796)	4,598,172
Total Claims and Claims Adjustments Incurred:	18,652,892	24,098,967
Claims and claims adjustment payments:		
Current year	(3,733,009)	(3,845,874)
Prior year	(10,673,676)	(10,643,361)
Total Claims and Claims Adjustment Payments	(14,406,685)	(14,489,235)
Balance at Fiscal Year End	$ 94,552,483	$ 90,306,276

Transportation Cabinet Workers' Compensation:
The Transportation Cabinet's Self-Insured Workers' Compensation Trust Program (the "Program") was organized on July 1, 1963, as a self-insurance fund administered by the Transportation Cabinet of the Commonwealth of Kentucky (the "Cabinet"). The purpose of the Program is to provide workers' compensation insurance to the employees of the Cabinet. The losses incurred by the Program are serviced by a designated third-party administrator who processes and reports all claims to the program. Changes in the Program's claims liability amount in Fiscal Years 2003 and 2002 were:

	Fiscal Year 2003	Fiscal Year 2002
Beginning of fiscal year liability	$ 21,178,961	$ 19,823,557
Claims and claims adjustments incurred	5,114,890	4,842,315
Changes in estimates		
Claims and claims adjustment payments	(3,639,276)	(3,486,911)
Balance at Fiscal Year End	$ 22,654,575	$ 21,178,961

Note 12

RISK POOLS

The Commonwealth's risk pools are the Insurance Administration Fund (enterprise fund) and the Grain Insurance Corporation and Kentucky Access (component units). The Insurance Administration Fund includes the operations of five risk pools as follows: Workers' Compensation Insurance, Coal Workers Pneumoconiosis, Petroleum Storage Tank Assurance, Bond Pool, and Mine Subsidence Insurance. The Insurance Administration Corporation is reported as part of the primary government. Kentucky Access and the Grain Insurance Corporation are risk pools reported as discrete component units.

Risk Pools - Enterprise Funds
Workers' Compensation Insurance:
The Kentucky Workers' Compensation Insurance Program, a risk sharing pool, covers preexisting conditions to protect employers from having to pay for injuries not sustained while under their employment, or more than once for disabilities resulting from the same accident. This Program encourages reemployment of injured workers at adequate wages by relieving the employer of the requirement of paying disability compensation in addition to full wages. The Program also covers claims against uninsured employers.

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of $972,415,728 as reported in the financial statements, is the present value of the aggregate actuarially determined claims liability of $2,126,496,057, discounted at 7.0 percent, and the net of the estimated realizable value of reimbursements. The claims adjusted liability of $17,023,395, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of $38,978,543, discounted at 7.0 percent.

The actuarially determined liabilities described above arise from projections included in an actuarial report dated June 30, 2003. Changes in the Program's aggregate liabilities for claims and claims adjustment for the past two years were:

	Fiscal Year 2003	Fiscal Year 2002
Beginning of fiscal year liability	$ 2,393,132,269	$ 2,373,940,088
Claims and claims adjustments incurred		150,487,831
Changes in estimates	(139,477,491)	(7,749,377)
Claims and claims adjustment payments	(88,180,178)	(123,546,273)
Balance at Fiscal Year End	$ 2,165,474,600	$ 2,393,132,269

Coal Workers Pneumoconiosis Fund:
The Coal Workers' Pneumoconiosis Fund (CWPF) was created within the Labor Cabinet through the enactment of House Bill No. 1 by the December 1996 Special Session of the General Assembly. The CWPF is liable for one-half of the income benefits and retraining incentive benefits for occupational pneumoconiosis resulting from exposure to coal dust created in the severance or processing of coal. The employer is liable for the remaining half.

In accordance with House Bill No. 1 from the December 1996 Special Session, the Kentucky Workers' Compensation Funding Commission shall impose a pneumoconiosis assessment to pre-fund the liabilities of the CWPF and to finance its administration. The assessment is 3.0 percent of workers' compensation premiums received on or after January 1, 1997, from employers engaged in the severance or processing of coal and an additional assessment of $0.025 per ton imposed upon coal severed on or after January 1, 1997. All pneumoconiosis assessments collected by the Funding Commission are to be credited to a separate account within the Benefit Reserve Fund and to be transferred as necessary to pay administrative expenses and current claims of the CWPF.

The Coal Workers' Pneumoconiosis Fund establishes claims liability based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of $1,251,959, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of $1,576,254 discounted at 7.0 percent. The claims adjustment liability of $6,335,662, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of $7,977,365, discounted at 7.0 percent. Changes in the aggregate liability for claims and claims adjustments for the past two years were as follows:

	Fiscal Year 2003	Fiscal Year 2002
Beginning of fiscal year liability	$ 2,615,938	$ 2,987,707
Claims and claims adjustments incurred		319,238
Changes in estimates	7,073,797	(371,769)
Claims and claims adjustment payments	(136,116)	(319,238)
Balance at Fiscal Year End	$ 9,553,619	$ 2,615,938

As stated above, the Coal Workers' Pneumoconiosis Fund was created by the December 1996 Special Session of the General Assembly. Therefore, there are no provisions for claims prior to 1997.

Petroleum Storage Tank Environmental Assurance Program:
The Office of the Petroleum Storage Tank Environmental Assurance Program, a risk sharing pool, was created in the 1990 regular session of the Kentucky General Assembly. The purpose of the Program is to assist petroleum storage tank owners or operators in complying with federal financial responsibility requirements relating to petroleum storage tanks and in cleaning up contamination caused by leaking tanks. A fee paid (at a rate of one and four-tenths cents per gallon) by dealers on each gallon of gasoline funds the Program and special fuels received in the Commonwealth funds the program.

The Program insures petroleum storage tank owners or operators for cost incurred for cleanup and other corrective action required in cleaning up contamination caused by leaking petroleum storage tanks. The Program also provides coverage for third party claims against the owners or operators for damages sustained as a result of leaking storage tanks. Claims paid by the Program are subject to deductibles that are applied separately, by occurrence, for cleanup claims and third party damage claims. The deductible is set at $1,000 per occurrence for owners or operators of five or less tanks, and at $5,000 for owners or operators of six to ten tanks, and at $25,000 for owners of more than ten tanks.

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of $177,663,000 that was reported in the financial statements is the aggregate actuarially determined claims liability and is not discounted. Changes in the Program's aggregate liabilities for claims and claims adjustment for the past two years were:

	Fiscal Year 2003	Fiscal Year 2002
Beginning of fiscal year liability, restated	$ 195,186,000	$ 319,400,000
Claims and claims adjustments incurred	10,645,000	30,100,000
Changes in estimates		
Claims and claims adjustment payments	(28,643,000)	(32,900,000)
Balance at Fiscal Year End	$ 177,188,000	$ 316,600,000

Bond Pool:
The Bond Pool was established in 1986 to provide an alternative bonding program for small to medium sized coal companies in Kentucky. Membership in the Pool is voluntary and prospective members must apply to become members. Applicants must meet standards set by the Bond Pool Commission to be accepted as members of the Bond Pool. These standards, used to evaluate potential Bond Pool members, consider factors such as mining experience, reclamation history, and financial condition of the applicant.

The Commission, based on the standards considered in the application process, rates accepted members. The members are rated and assessed an initial membership fee based on this rating. This fee ranges from $1,000 to $2,500. Additionally members pay tonnage fees of $.05 per ton of surface mined coal and $.01 per ton for underground mined coal. Provisions are also in effect where the tonnage fee is suspended for members who have participated in the Program for 36 months, or when the Program balance exceeds $7 million.

The coal companies participating in the Program are required to post a permit specific bond based on the number of acres permitted and their rating in the Program. The Bond Pool in turn provides coverage for reclamation costs that exceed the permit specific bond but limits claims to the total amount of bond required by the permit. The Bond Pool does not pay claims for costs incurred in excess of the required bond amount.

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of $13,594,597 as reported in the financial statements, is the aggregate actuarially determined claims liability. There were no changes in claims adjustment liability during fiscal year 2003. Changes in the Program's aggregate liabilities for claims and claims adjustments for the past two years were:

	Fiscal Year 2003	Fiscal Year 2002
Beginning of fiscal year liability	$ 13,594,597	$ 8,615,080
Claims and claims adjustments incurred		4,979,517
Changes in estimates		
Claims and claims adjustment payments		
Balance at Fiscal Year End	$ 13,594,597	$ 13,594,597

Mine Subsidence Insurance:
The Mine Subsidence Insurance Program is administered by the Department of Insurance. The provisions of the Program require that all insurance policies issued or renewed that insure a structure located in any county in the Commonwealth, except those specifically exempted by KRS 304.44-60, shall include a separately stated premium for mine subsidence damage coverage. This premium is assessed at the amount determined by the Program and the insurer is required to code this coverage to the Program. The insurer may refuse to provide coverage where preexisting damage is determined to exist. The Program provides coverage subject to a deductible of 2 percent of the policy's total insured value or not less than $250 and not more than $500. The Mine Subsidence Program also limits its coverage to $50,000 per structure.

GASB 10 requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The claims liability of $65,000 as reported in the financial statements, is the aggregate actuarially determined claims liability. Changes in the Program's claims liability amount in Fiscal Years 2003 and 2002 were:

	Fiscal Year 2003	Fiscal Year 2002
Beginning of fiscal year liability	$ 0	$ 36,000
Claims and claims adjustments incurred	65,000	(35,809)
Changes in estimates	79,391	
Claims and claims adjustment payments	(79,391)	(191)
Balance at Fiscal Year End	$ 65,000	$ 0

Risk Pools - Component Units
Kentucky Access:
Kentucky Access was created to ensure that health coverage is made available to each applying and qualifying Kentucky individual. As an implemented state sponsored "high risk" pool, Kentucky Access was established January 2, 2001 by KRS 304.17B-001 to 304.17B-031. Its purpose is that Kentucky may continue flexible regulation of health coverage.

In operating under the Division of Kentucky Access in the Department of Insurance, KRS 12.050 and KRS 304.2-060 guides the appointments of an appropriate division director as appointed by the commissioner of insurance. Also, the Guaranteed Acceptance Program, as established by KRS 304.17A-400 to 304.17A-480, helps participating insurance companies to recover losses from individuals who met the "high risk" pool category by transferring the funds to Kentucky Access.

Under this program, a referral fee is paid to Kentucky Access. A provider network is then established, or a provider network is created by contracting with an insurer for a statewide provider network. Under KRS 304.17B-011 the established provider network is available and limited only to Kentucky Access enrollees.

A third-party administrator chosen through the state bidding process administers Kentucky Access. The administrator develops and establishes policies and procedures for enrolled participants and potential enrollees. However, premium rates charged do not fully

cover health care costs; thus, claims exceeding premium rates shall be covered by the Kentucky Access Fund.

Changes in the Program's claims liability amount in Fiscal Years 2003 and 2002 were:

	Fiscal Year 2003	Fiscal Year 2002
Beginning of fiscal year liability	$ 5,531	$ 889,402
Claims and claims adjustments incurred	5,525,016	1,061,879
Changes in estimates		
Claims and claims adjustment payments		(1,945,750)
Balance at Fiscal Year End	$ 5,530,547	$ 5,531

Grain Insurance:
The Grain Insurance Program was established to promote economic stability in agriculture by providing coverage to grain producers for losses incurred in the event of a financial failure of a grain dealer or grain warehousemen. The Program is funded by a half-cent per bushel assessment on all marketed grain produced in Kentucky. The Program also has provisions that the assessment can be suspended when the balance of the Program reaches $3 million and if suspended will be reapplied when the balance of the Program drops to $2 million.

No claims liability was reported in the Program at June 30, 2003, based on the requirements of GASB 10. This statement prescribes the reporting of a claim liability if information prior to the issuance of the financial statements indicates that a probable liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Claims liability in Fiscal Year 2002 was also zero.

Note 13

DEFEASANCE OF LONG-TERM DEBT

The Kentucky School Facilities Construction Commission issues revenue bonds on behalf of local school districts to finance construction of new facilities or the major renovation of existing facilities. The Commission participates in the payment of debt service for qualifying districts. By statute, the Commission's portion of the savings from refunding issues goes to the school district. Therefore, the Commission's participation remains unchanged. Proceeds from the issues are placed in escrow accounts to pay the future debt service of the issue(s) being refunded. During the fiscal year ended June 30, 2003 the Commission issued the following refunding revenue bonds:

Revenue refunding bonds dated July 1, 2002, were issued for the Grant County School District Finance Corporation to refund a 1992 issue. The Commission's portion of the refunding issue was $217,156 maturing March 1, 2003 through September 1, 2012 and carrying interest rates from 1.45% to 3.75%.

Revenue refunding bonds dated July 1, 2002, were issued for the Marion County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was $2,039,148 maturing June 1, 2003 through June 1, 2014 and carrying interest rates from 1.50% to 3.85%.

Revenue refunding bonds dated August 1, 2002, were issued for the Pineville Independent School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $162,630 maturing February 1, 2003 through February 1, 2013 and carrying interest rates from 1.50% to 3.85%.

Revenue refunding bonds dated August 1, 2002, were issued for the McLean County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was $1,240,683 maturing June 1, 2003 through June 1, 2014 and carrying interest rates from 1.35% to 3.80%.

Revenue refunding bonds dated September 1, 2002 were issued for the Jessamine County School District Finance Corporation to refund a 1992 issue. The Commission's portion of the refunding issue was $534,195 maturing December 1, 2002 through December 1, 2006 and carrying interest rates from 1.20% to 2.25%.

Revenue refunding bonds dated September 1, 2002 were issued for the Bourbon County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was $283,668 maturing June 1, 2002 through June 1, 2014 and carrying interest rates from 1.35% to 3.75%.

Revenue refunding bonds dated September 1, 2002, were issued for the Somerset Independent School District Finance Corporation to refund a 1989 issue and a 1994 issue. The Commission's portion of the refunding issue was $353,789 maturing June 1, 2003 through June 1, 2014 and carrying interest rates from 1.45% to 4%.

Revenue refunding bonds dated September 1, 2002 were issued for the Knott County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was $949,522 maturing February 1, 2003 through February 1, 2014 and carrying interest rates from 1.25% to 3.85%.

Revenue refunding bonds dated September 1, 2002 were issued for the Fulton County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $149,998 maturing June 1, 2003 through June 1, 2013 and carrying interest rates from 3.75% to 3.75%.

Revenue refunding bonds dated September 1, 2002, were issued for the Harrodsburg Independent School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was $668,691 maturing April 1, 2003 through April 1, 2014 and carrying interest rates from 1.40% to 3.80%.

Revenue refunding bonds dated September 1, 2002 were issued for the Hardin County School District Finance Corporation to refund a 1992 issue. The Commission's portion of the refunding issue was $1,238,696 maturing December 1, 2002 through December 1, 2012 and carrying interest rates from 1.25% to 3.20%.

Revenue refunding bonds, series 2002A, dated September 1, 2002 were issued for the Hopkins County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $1,982,619 maturing February 1, 2003 through February 1,2013 and carrying interest rates from 1.50% to 3.45%.

Revenue refunding bonds, series 2002B, dated September 1, 2002 were issued for the Hopkins County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $1,218,440 maturing February 1, 2003 through February 1,2013 and carrying interest rates from 1.50% to 3.45%.

Revenue refunding bonds dated October 1, 2002 were issued for the Harlan County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $1,753,512 maturing May 1, 2003 through May 1, 2013 and carrying interest rates from 1.30% to 3.45%.

Revenue refunding bonds, series 2002A, dated September 1, 2002 were issued for the Knox County School District Finance Corporation to refund a 1992A issue. The Commission's portion of the refunding issue was $225,000 maturing April 1, 2003 through October 1,2012 and carrying interest rates from 1.40% to 3.50%.

Revenue refunding bonds, series 2002B, dated September 1, 2002 were issued for the Knox County School District Finance Corporation to refund a 1992B issue. The Commission's portion of the refunding issue was $603,333 maturing April 1, 2003 through October 1,2007 and carrying interest rates from 1.40% to 2.45%.

Revenue refunding bonds dated September 1, 2002 were issued for the Boone County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $1,968,989 maturing February 1, 2003 through February 1, 2013 and carrying interest rates from 2.00% to 3.375%.

Revenue refunding bonds, Series 2002A, dated September 15, 2002 were issued for the Morgan County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was $792,855 maturing March 1, 2003 through September 1, 2014 and carrying interest rates from 2.00% to 3.70%.

Revenue refunding bonds, Series 2002B, dated September 15, 2002 were issued for the Morgan County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $896,177 maturing February 1, 2003 through February 1, 2008 and carrying interest rates from 1.50% to 2.70%.

Revenue refunding bonds, Series 2002A, dated September 1, 2002 were issued for the Grayson County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was $199,668 maturing January 1, 2003 through January 1, 2015 and carrying interest rates from 1.25% to 3.75%.

Revenue refunding bonds, Series 2002B, dated September 1, 2002 were issued for the Grayson School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $248,425 maturing September 1, 2003 through September 1, 2013 and carrying interest rates from 1.60% to 3.55%.

Revenue refunding bonds dated October 1, 2002 were issued for the Anderson County School District Finance Corporation to refund 1994 series A and B issues. The Commission's portion of the refunding issue was $625,396 maturing February 1, 2014 through August 1, 2014 and carrying interest rates from 1.25% to 3.50%.

Revenue refunding bonds dated October 1, 2002 were issued for the Caverna Independent School District Finance Corporation to refund a 1992 issue. The Commission's portion of the refunding issue was $110,899 maturing December 1, 2002 through December 1, 2012 and carrying interest rates from 1.30% to 3.50%.

Revenue refunding bonds dated October 1, 2002 were issued for the Ballard County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $65,208 maturing February 1, 2003 through February 1, 2013 and carrying interest rates from 1.75% to 3.80%.

Revenue refunding bonds dated October 1, 2002 were issued for the Casey County School District Finance Corporation to refund 1994 and 1995 issues. The Commission's portion of the refunding issue was $734,430 maturing March 1, 2003 through March 1, 2015 and carrying interest rates from 2.00% to 3.80%.

Revenue refunding bonds dated November 1, 2002 were issued for the Simpson County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $213,068 maturing April 1, 2003 through April 1, 2013 and carrying interest rates from 1.75% to 3.90%.

Revenue refunding bonds dated November 1, 2002 were issued for the Owsley County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $55,417 maturing June 1, 2003 through June 1, 2013 and carrying interest rates from 1.90% to 3.95%.

Revenue refunding bonds dated November 1, 2002 were issued for the Barren County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $1,857,781 maturing March 1, 2003 through March 1, 2013 and carrying interest rates from 1.90% to 3.95%.

Revenue refunding bonds dated November 1, 2002 were issued for the Powell County School District Finance Corporation to refund a 1991 issue and a 1995 issue. The Commission's portion of the refunding issue was $186,187 maturing February 1, 2003 through August 1, 2015 and carrying interest rates from 2.50% to 3.90%.

Revenue refunding bonds dated November 1, 2002 were issued for the Floyd County School District Finance Corporation to refund two 1994 issues. The Commission's portion of the refunding issue was $1,604,403 maturing March 1, 2003 through March 1, 2015 and carrying interest rates from 1.45% to 4.10%.

Revenue refunding bonds dated November 1, 2002 were issued for the Caldwell County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was $381,476 maturing January 1, 2003 through July 1, 2014 and carrying interest rates from 1.25% to 3.875%.

Revenue refunding bonds dated November 1, 2002 were issued for the Covington Independent School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $190,582 maturing June 1, 2003 through June 1, 2013 and carrying interest rates from 2.00% to 3.60%.

Revenue refunding bonds dated November 1, 2002 were issued for the Rowan County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $896,547 maturing April 1, 2003 through April 1, 2013 and carrying interest rates from 2.00% to 3.65%.

Revenue refunding bonds dated November 1, 2002 were issued for the Trimble County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was $112,766 maturing June 1, 2003 through June 1, 2014 and carrying interest rates from 3.50% to 3.50%.

Revenue refunding bonds dated December 1, 2002 were issued for the Mason County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $229,428 maturing June 1, 2003 through June 1, 2013 and carrying interest rates from 1.75% to 3.85%.

Revenue refunding bonds dated December 1, 2002 were issued for the Greenup County School District Finance Corporation to refund 1992, 1994, and 1995 issues. The Commission's portion of the refunding issue was $2,137,625 maturing March 1, 2003 through September 1, 2014 and carrying interest rates from 1.35% to 4.00%.

Revenue refunding bonds dated December 1, 2002 were issued for the Walton-Verona Independent School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $57,821 maturing June 1, 2003 through June 1, 2013 and carrying interest rates from 1.50% to 3.90%.

Revenue refunding bonds dated December 1, 2002 were issued for the Todd County School District Finance Corporation to refund a 1992 issue. The Commission's portion of the refunding issue was $256,961 maturing April 1, 2003 through October 1, 2007 and carrying interest rates from 2.00% to 2.60%.

Revenue refunding bonds dated December 1, 2002 were issued for the Frankfort Independent School District Finance Corporation to refund a 1991 issue and a 1992 issue. The Commission's portion of the refunding issue was $359,222 maturing April 1, 2003 through October 1, 2012 and carrying interest rates from 2.90% to 2.90%.

Revenue refunding bonds dated December 1, 2002 were issued for the Franklin County School District Finance Corporation to refund a 1991 issue. The Commission's portion of the refunding issue was $207,000 maturing February 1, 2003 through August 1, 2010 and carrying interest rates from 3.00% to 3.00%.

Revenue refunding bonds dated January 1, 2003 were issued for the LaRue County School District Finance Corporation to refund 1994 Series A and B. The Commission's portion of the refunding issue was $260,139 maturing August 1, 2003 through August 1, 2014 and carrying interest rates from 1.35% to 3.50%.

Revenue refunding bonds dated January 1, 2003 were issued for the Logan County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $458,060 maturing June 1, 2003 through June 1, 2013 and carrying interest rates from 1.50% to 3.65%.

Revenue refunding bonds dated January 1, 2003 were issued for the Robertson County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was $55,472 maturing June 1, 2003 through June 1, 2014 and carrying interest rates from 1.75% to 3.80%.

Revenue refunding bonds dated January 1, 2003 were issued for the Laurel County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $758,687 maturing May 1, 2004 through May 1, 2013 and carrying interest rates from 1.15% to 3.70%.

Revenue refunding bonds dated January 1, 2003 were issued for the Crittenden County School District Finance Corporation to refund 1992 and 1993 issues. The Commission's portion of the refunding issue was $275,597 maturing June 1, 2003 through June 1, 2013 and carrying interest rates from 3.10% to 3.10%.

Revenue refunding bonds dated January 1, 2003 were issued for the Lyon County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was $118,998 maturing February 1, 2004 through February 1, 2015 and carrying interest rates from 1.15% to 3.85%.

Revenue refunding bonds dated February 1, 2003 were issued for the Bullitt County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was $461,857 maturing August 1, 2003 through August 1, 2014 and carrying interest rates from 1.75% to 3.80%.

Revenue refunding bonds dated February 1, 2003 were issued for the Johnson County School District Finance Corporation to refund 1993 A & B issues. The Commission's portion of the refunding issue was $1,389,862 maturing June 1, 2003 through June 1, 2013 and carrying interest rates from 1.10% to 3.50%.

Revenue refunding bonds dated February 1, 2003 were issued for the Elliott County School District Finance Corporation to refund 1993 and 1994 issues. The Commission's portion of the refunding issue was $1,228,187 maturing September 1, 2003 through September 1, 2014 and carrying interest rates from 1.25% to 3.65%.

Revenue refunding bonds dated February 1, 2003 were issued for the McCreary County School District Finance Corporation to refund a 1993 and 1995 issues . The Commission's portion of the refunding issue was $709,560 maturing August 1, 2003 through August 1, 2007 and carrying interest rates from 1.10% to 2.20%.

Revenue refunding bonds dated February 1, 2003 were issued for the Bath County School District Finance Corporation to refund a 1992 issue. The Commission's portion of the refunding issue was $584,139 maturing September 1, 2003 through September 1, 2007 and carrying interest rates from 1.10% to 2.00%.

Revenue refunding bonds dated February 1, 2003 were issued for the Pike County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $4,195,000 maturing June 1, 2003 through December 1, 2007 and carrying interest rates from 1.15% to 2.10%.

Revenue refunding bonds dated February 1, 2003 were issued for the Fleming County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was $252,612 maturing March 1, 2004 through March 1, 2015 and carrying interest rates from 1.50% to 3.50%.

Revenue refunding bonds dated March 1, 2003 were issued for the Science Hill Independent School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $39,957 maturing June 1, 2003 through December 1, 2013 and carrying interest rates from 1.20% to 3.45%.

Revenue refunding bonds dated March 1, 2003 were issued for the Perry County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $362,354 maturing June 1, 2003 through June 1, 2013 and carrying interest rates from 1.00% to 3.00%.

Revenue refunding bonds dated March 1, 2003 were issued for the Elizabethtown Independent School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $161,309 maturing July 1, 2003 through July 1, 2013 and carrying interest rates from 1.05% to 3.10%.

Revenue refunding bonds dated March 1, 2003 were issued for the Jefferson County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was $541,243 maturing July 1, 2003 through July 1, 2015 and carrying interest rates from 2.00% to 3.50%.

Revenue refunding bonds dated March 1, 2003 were issued for the Newport Independent School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was $1,046,237 maturing February 1, 2004 through February 1, 2014 and carrying interest rates from 3.00% to 3.25%.

Revenue refunding bonds, series 2003A, dated March 1, 2003 were issued for the Wayne County School District Finance Corporation to refund a 1991 issue. The Commission's portion of the refunding issue was $139,000 maturing September 1, 2003 through September 1, 2010 and carrying interest rates from 2.95% to 2.95%.

Revenue refunding bonds, series 2003B, dated March 1, 2003 were issued for the Wayne County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $350,940 maturing October 1, 2003 through October 1, 2013 and carrying interest rates from 1.10% to 3.50%.

Revenue refunding bonds, series 2003C, dated March 1, 2003 were issued for the Wayne County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was $65,271 maturing February 1, 2004 through February 1, 2015 and carrying interest rates from 3.40% to 3.40%.

Revenue refunding bonds dated March 1, 2003 were issued for the Murray Independent School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $82,415 maturing May 1, 2004 through May 1, 2013 and carrying interest rates from 1.20% to 3.50%.

Revenue refunding bonds dated March 1, 2003 were issued for the Campbell County School District Finance Corporation to refund 1993 and 1994 issues. The Commission's portion of the refunding issue was $332,290 maturing February 1, 2004 through February 1, 2014 and carrying interest rates from 2.00% to 4.00%.

Revenue refunding bonds dated April 1, 2003 were issued for the Oldham County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $1,399,840 maturing August 1, 2003 through August 1, 2007 and carrying interest rates from 2.00% to 2.00%.

Revenue refunding bonds dated May 1, 2003 were issued for the Perry County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $203,860 maturing August 1, 2003 through August 1, 2008 and carrying interest rates from 1.50% to 2.30%.

Revenue refunding bonds dated May 1, 2003 were issued for the Estill County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was $205,479 maturing June 1, 2004 through June 1, 2014 and carrying interest rates from 2.00% to 3.70%.

Revenue refunding bonds dated May 1, 2003 were issued for the Clay County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was $1,214,663 maturing February 1, 2004 through February 1, 2014 and carrying interest rates from 2.00% to 3.20%.

Revenue refunding bonds dated June 1, 2003 were issued for the Hickman County School District Finance Corporation to refund 1994A and 1994B issues. The Commission's portion of the refunding issue was $276,945 maturing October 1, 2003 through October 1, 2014 and carrying interest rates from 1.50% to 3.50%.

Revenue refunding bonds dated June 1, 2003 were issued for the McCreary County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was $238,859 maturing February 1, 2004 through February 1, 2016 and carrying interest rates from 2.00% to 3.40%.

Revenue refunding bonds dated June 1, 2003 were issued for the Garrard County School District Finance Corporation to refund a 1995 issue. The Commission's portion of the refunding issue was $124,173 maturing June 1, 2004 through June 1, 2015 and carrying interest rates from 2.00% to 3.15%.

Revenue refunding bonds dated June 1, 2003 were issued for the Harrison County School District Finance Corporation to refund a 1994 issue. The Commission's portion of the refunding issue was $93,836 maturing June 1, 2004 through June 1, 2014 and carrying interest rates from 1.30% to 3.30%.

Revenue refunding bonds, Series A, dated June 1, 2003 were issued for the Ohio County School District Finance Corporation to refund a 1993 issue and a 1994 issue. The Commission's portion of the refunding issue was $2,460,000 maturing January 1, 2004 through January 1, 2014 and carrying interest rates from 1.00% to 3.00%.

Revenue refunding bonds, Series B, dated June 1, 2003 were issued for the Ohio County School District Finance Corporation to refund a 1996 issue. The Commission's portion of the refunding issue was $269,414 maturing June 1, 2004 through June 1, 2016 and carrying interest rates from 2.00% to 3.30%.

Revenue refunding bonds dated June 1, 2003 were issued for the Bellevue Independent School District Finance Corporation to refund 1992 and 1993 issues. The Commission's portion of the refunding issue was $199,728 maturing September 1, 2003 through September 1, 2012 and carrying interest rates from 2.25% to 2.25%.

Revenue refunding bonds dated June 1, 2003 were issued for the Floyd County School District Finance Corporation to refund a 1993 issue. The Commission's portion of the refunding issue was $1,179,783 maturing October 1, 2003 through October 1, 2013 and carrying interest rates from 1.45% to 3.75%.

Note 14

RELATED ORGANIZATIONS

The Commonwealth has several related organizations. The financial activities of these organizations are not included in the Commonwealth's financial statements. They are the East Kentucky Corporation, Eastern Kentucky Exposition Center Corporation, West Kentucky Corporation, West Kentucky Economic Development Fund, Northern Kentucky Convention Center Corporation, Kentucky Employer's Mutual Insurance Authority, Kentucky Wood Products Competitiveness Corporation and the Interstate Air Pollution Control Commission. The Commonwealth holds no economic interest in, nor has any financial responsibility for these organizations.

Several of the Commonwealth's universities receive funding from independent foundations specifically created to benefit the respective universities. Financial information pertaining to these foundations is not presented as part of the Commonwealth's reporting entity because they are considered independent entities.

Note 15

SHORT-TERM AND LONG-TERM OBLIGATIONS

Short-Term Obligations

Short-term debt is comprised of tax revenue anticipation notes that are issued to smooth the cash flow from tax receipts.

The following chart shows changes in short-term debt during the period ending June 30, 2003:

Short-term Debt on July 1, 2002	Additions	Repayments	Short-term Debt on June 30, 2003
$	$ 500,000,000	$ 500,000,000	$
$	$ 500,000,000	$ 500,000,000	$

Long-Term Obligations

General Obligation Bonds are issued through the State Property and Buildings Commission, subject to general referendum approval required by the Kentucky Constitution. General obligation bonds pledge the full faith, credit, and taxing power of the Commonwealth and denote application of specific or general tax revenues to provide payment of principal and interest requirements on the debt. No new issues of this type have been issued since 1965, and none are outstanding or authorized but unissued at June 30, 2003.

Revenue Bonds - General authorization for the use of revenue bonds is contained in Chapter 58 of the Kentucky Revised Statutes. Specific authority is contained in the legislation and related KRS chapters creating and empowering the various debt issuing entities. Reference to such legislation and laws is made throughout the following entity descriptions. Effective July 15, 1980, KRS 56.870 requires prior approval of debt financing projects by the Kentucky General Assembly sitting in regular or special sessions. Succeeding statutes establish the methods for this approval and the exemptions from it. The majority of new debt issues are approved through the appropriation act. Per KRS 56.873, effective July 15, 1980, revenue bonds having passed the above mechanisms, and not requiring Commonwealth appropriations, must receive an "A" rating by Moody's Investors Service or the equivalent rating by another qualified rating agency prior to their sale.

Project revenue debt pledges only the revenues produced by the project so funded as security for repayment and does not directly obligate the Commonwealth. Kentucky's project revenue debt may be further classified by the purpose of the debt. Revenue debt issued by the Kentucky Housing Corporation, Kentucky Infrastructure Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Economic Development Finance Authority, Kentucky Local Correctional Facilities Construction Authority, Kentucky Agricultural Finance Corporation, and Kentucky School Facilities Construction Commission is used as a financing mechanism for activities and facilities not used directly for State purposes. The tax exempt status of such municipal debt, whether issued by State or local governments, is used to provide financing for entities unable to bear the costs of private financing when the General Assembly deems such entities worthy of public assistance. The other category of revenue debt finances facilities used directly by State Government in activities such as roads, parks, office buildings, and educational facilities. The primary distinction between these categories is that the first type, with the exceptions of the Kentucky School Facilities Construction Commission, which succeeds the Kentucky School Building Authority, and the Kentucky Infrastructure Authority, which succeeds the Kentucky Pollution Abatement and Water Resources Finance Authority, requires no State funds of any type to provide debt service, principal and interest payments on the debt. The School Facilities Construction Commission supplements funds provided by local governments and school boards in varying percentages for debt service. The Kentucky Infrastructure Authority may accept appropriations made by the General Assembly, in addition to State and Federal grants, related to the purposes for which it was created. This distinction is important in analyzing the true level of State debt and the burden of that debt on State resources.

During the fiscal year ended June 30, 2003, the debt issuing entities described below sold revenue and revenue refunding bonds as follows:

Future revenue bond debt service requirements for bonds issued by the Commonwealth's Component Units at June 30, 2003, are as follows (Expressed in Thousands):

Year Ending June 30	Principal	Interest	Totals
2004	$ 164,696	$ 140,836	$ 305,532
2005	211,148	135,391	346,539
2006	248,807	126,834	375,641
2007	163,045	118,759	281,804
2008	144,384	111,090	255,474
2009-2013	663,211	460,071	1,123,282
2014-2018	417,503	328,682	746,185
2019-2023	285,948	236,310	522,258
2024-2028	402,879	164,460	567,339
2029-2033	196,375	27,704	224,079
2034-2038	749,785	30,143	779,928
Total	$ 3,647,781	$ 1,880,280	$ 5,528,061

The agencies and authorities that issue debt and their respective amounts of principal outstanding, net of discounts and defeased bonds, at June 30, 2003, are as follows (Expressed in Thousands):

Long-Term Obligations	Principal Outstanding	Interest Rate	Annual Maturity To
Agency:			
State Property and Buildings Commission	$ 2,067,620	2.3%-7.65%	2023
Turnpike Authority of KY	1,097,603	4.2%-9.625%	2020
Total	$ 3,165,223		

Furture revenue bond debt service requirements, to be paid with State Funds, at June 30, 2003, are as follows (Expressed in Thousands):

Year Ending June 30	Principal	Interest	Totals
2004	$ 263,877	$ 163,083	$ 426,960
2005	216,255	152,039	368,294
2006	216,529	137,957	354,486
2007	219,719	127,303	347,022
2008	228,848	111,240	340,088
2009-2013	992,045	375,624	1,367,669
2014-2018	670,015	181,163	851,178
2019-2023	357,935	34,162	392,097
Total	$ 3,165,223	$ 1,282,571	$ 4,447,794

Component Unit Revenue Bonds Payable	**Principal Outstanding**	**Interest Rate**	**Annual Maturity To**
Kentucky School Facilities Construction Commission	$ 578,994	1.25-5.4%	2024
Kentucky Housing Corporation *	1,310,098	1.10-7.39%	2039
Kentucky Infrastructure Authority *	216,825	3.0-8.4%	2021
Kentucky Higher Education Student Loan Corporation	1,023,050	1.65-5.30%	2033
Kentucky Local Correctional Facilities Construction Authority *	30,865	4.85-5.50%	2014
University of Kentucky	190,136	1.15-6.40%	2024
University of Louisville	125,851	1.60-5.40%	2018
Eastern Kentucky University			
Western Kentucky University	18,300	2.0-5.0%	2012
Murray State University *	17,647	3.0-6.2%	2022
Morehead State University	28,195	2.75-7.15%	2020
Kentucky State University	11,295	2.0-5.6%	2014
Northern Kentucky University	36,850	3.0-7.8%	2021
Kentucky Community and Technical College System *	59,675	3.0-6.4%	2011
Total Component Unit Revenue Bonds Payable	$ 3,647,781		

* Amounts reflect original issue

The Kentucky State Property and Buildings Commission is composed of the Governor, Lieutenant Governor, Attorney General, Secretary of the Finance and Administration Cabinet, Secretary of the Revenue Cabinet, and Secretary of the Economic Development Cabinet.

The Commission is an independent agency of the Commonwealth created by KRS 56.450 and empowered upon application of any State agency to issue bonds in its own name to pay the costs of acquiring land and equipment, and the construction and equipping of buildings for the occupancy and/or use of said agencies.

The commission issued no project revenue bonds during the year ended June 30, 2003.

The Turnpike Authority of Kentucky was created in the 1960 regular session of the General Assembly under present KRS sections 175.410 through 175.990 as a body corporate and politic constituting a municipal corporation, political subdivision, and instrumentality of the Commonwealth. The Authority is composed of the Governor, Lieutenant Governor, Attorney General, Secretary of Transportation, Commissioner of Highways, State Highway Engineer, and Secretary of Economic Development. The Secretary of the Finance and Administration Cabinet currently serves as the Authority's Treasurer.

The Authority issued no new project revenue bonds during the year ended June 30, 2003.

State Universities - The Board of Trustees of the University of Kentucky and the Boards of Regents of the University of Louisville, Eastern Kentucky University, Western Kentucky University, Murray State University, Morehead State University, Kentucky State University, and Northern Kentucky University are authorized under KRS 56.495 to issue debt for the purpose of constructing educational buildings and housing and dining facilities. In addition, the University of Louisville is specifically authorized to issue debt for educational buildings under KRS 64.860 but is limited to $16 million of refunding debt.

State supported universities issued $123,255,000 in revenue and refunding revenue bonds as follows:

Morehead State University, issued $4,485,000 in Housing and Dining System Refunding Revenue Bonds as follows:

$4,485,000, Series Q, Housing and Dining System Refunding Revenue Bonds, dated April 1, 2003, maturing each November 1, through 2012, interest due each May 1 and November 1, at 3.00% to 3.50% interest.

Kentucky State University issued $8,185,000 in Consolidated Educational Buildings Refunding Revenue Bonds as follows:

$8,185,000, Series I, Consolidated Educational Buildings Refunding Revenue Bonds, dated April 1, 2003, maturing each May 1 through 2011, interest due each May 1 and November 1, at 2.00% to 3.20%.

University of Kentucky Hospital issued $3,850,000 in Refunding Revenue Bonds, as follows:

$3,850,000, Refunding Revenue Bonds, Series A (Third Series), dated June 1, 2003, maturing each August 1, through 2005, interest due each August 1 and February 1, at 1.50% to 2.00%.

University of Kentucky issued $5,115,000 in Consolidated Educational Buildings Refunding Revenue Bonds, as follows:

$5,115,000, Consolidated Educational Buildings Refunding Revenue Bonds, Series K, Third Series, dated March 1, 2003, maturing each May 1, through 2010, interest due each May 1 and November 1, at 1.150% to 3.250%.

University of Louisville issued Housing System Refunding Revenue Bonds, Series E, dated February 1, 2003, as follows:

$6,745,000 Housing System Refunding Revenue Bonds, Series E maturing each November 1 through 2013, interest due each May 1 and November 1, at 1.60% to 3.50%.

The university also issued $88,765,000 in Consolidated Educational Buildings Refunding Revenue Bonds, Series M, dated February 1, 2003, maturing each May 1, through 2016, interest due each May 1 and November 1, at 1.50% to 4.00%.

Western Kentucky University issued $6,110,000 in Consolidated Educational Buildings Revenue Bonds, Series N, dated September 1, 2002, maturing each May 1, through 2012, at 2.000% to 3.375%.

The Kentucky Housing Corporation, established in 1972 under KRS Chapter 198A, is a municipal corporation and political subdivision of the Commonwealth governed by a board of directors comprised of the Secretary of the Finance and Administration Cabinet, Commissioner of the Department for Local Government, Secretary of the Revenue Cabinet, Attorney General, Secretary of the Economic Development Cabinet, Lieutenant Governor, and eight additional members appointed by the Governor. The Corporation is authorized to increase the supply of housing for persons of lower income by making or participating in insured construction loans, and making or participating in insured mortgage loans when financing is not available from private lenders under reasonably equivalent terms and conditions. The Corporation is limited to a $2.125 billion total maximum principal value of debt outstanding.

$50,000,000, 2002 Series D (AMT), Housing Revenue Bonds, dated August 22, 2002, of which $11,470,000 were serial bonds due biannually through July 1, 2014 at 1.90% to 4.60%. $12,315,000 term bonds due July 1, 2022, at 5.25%; $14,500,000 term bonds due January 1, 2029, at 5.275%; and $11,715,000 term bonds due January 1, 2033, at 5.375%.

$40,000,000, 2002 Series E (AMT) Housing Revenue Bonds, dated October 24, 2002, of which $8,960,000 were serial bonds due biannually July 1, 2014 at 1.60% to 4.10%. $3,220,000 term bonds due July 1, 2017 at 4.55%; $5,160,000 term bonds due July 1, 2021, at 4.90%; $9,125,000 term bonds due January 1, 2027, at 4.95%; $2,450,000 term bonds due July 1, 2032 at 5.05%; and $11,085,000 term bond due January 1, 2033 at 5.05%.

The Corporation issued Housing Revenue Bonds in the aggregate principal amount of $141,720,000 to continue the Corporation's program of purchasing qualified mortgage loans made to eligible borrowers to finance owner occupied single family residences, and refinance certain borrowings of the Corporation as more fully described in the Official Statement. The Series issued were as follows:

The corporation issued two series (Series F and Series G), dated January 23, 2003, aggregate principal of $35,000,000, as follows:

$30,000,000 2002 Series F Bonds (AMT) Housing Revenue Bonds, of which $7,660,000 were serial bonds due biannually through July 1, 2014 at 1.85% to 4.50%. Term bonds include $3,410,000 due July 1, 2022, at 5.10%, $4,140,000 due July 1, 2025, at 5.20%, $7,790,000 due January 1, 2033, at 5.25%, and $7,000,000 due July 1, 2033, at 5.25% and

$5,000,000 2002 Series G Bonds (AMT)) Housing Revenue Bonds, (Variable Rate) term bonds due July 1, 2022.

$35,000,000 2003 Series A (Non-AMT) Housing Revenue Bonds, dated April 24, 2003, of which $10,575,000 were serial bonds, due biannually through July 1, 2017, at 1.10% to 4.05%. $7,020,000 term bonds due July 1, 2023, at 4.65%, $12,405,000 term bonds due January 1, 2033, at 4 ¾%, and $5,000,000 term bonds due July 1, 2033, at 4 ¾%.

The Corporation issued $71,720,000 in Housing Revenue Bonds which consisted of the following:

$55,000,000, 2003 Series B (AMT) Housing Revenue Bonds, dated June 26, 2003, of which $17,220,000 were serial bonds due biannually through July 1, 2017, at 1.25% to 4.35%. $3,845,000 term bonds, due July 1, 2021 at 4.60%; $4,260,000 term bonds, due January 1, 2022, at 4.60%; $10,890,000 term bond, due January 1, 2027, at 3.35%; $9,070,000 term bonds, due January 1, 2033, at 4.80%, and $9,715,000 term bonds due July 1, 2033, at 4.80% and

$16,720,000 2003 Series C (Non-AMT) Housing Revenue Bonds, dated June 26, 2003, of which $1,300,000 were serial bonds maturing July 1, 2015 through 2017, at 3.80% to 4.00%. $2,055,000 term bonds, due July 1, 2017, at 3.90%; and $13,365,000 term bonds, due July 1, 2024, at 4.55%.

The Kentucky Infrastructure Authority was created by House Bill 217, passed into law during the 1988 regular session of the Kentucky General Assembly, to assist governmental agencies of the State with respect to the construction and acquisition of infrastructure projects as defined in the legislation. Pursuant to this Act, which amends KRS Chapter 224A, all powers, duties, and obligations of the Kentucky Pollution Abatement and Water Resources Finance Authority, including administration of debt service on revenue bonds previou-sly issued by the Authority, are transferred to the Kentucky Infrastructure Authority, which is established as a body corporate and politic, constituting a public corporation and a governmental agency and instrumentality of the State.

The Authority issued $30,295,000 in Governmental Agencies Program Revenue and Revenue Refunding Bonds, as follows:

The Authority issued $16,875,000 Composite Issue Revenue Refunding Bonds, 2002 Series for the purpose of (1) providing moneys to refund certain outstanding bonds issued to finance the Authority's wastewater revolving fund, infrastructure revolving fund and solid waste revolving fund programs and (2) paying costs of issuance, each as described in the Official Statement dated October 1, 2002, as follows:

$11,770,000 Series H, Wastewater Revolving Fund Program Revenue Refunding Bonds, maturing serially each June 1 through 2015, interest due biennially each June 1 and December 1, at 2.00% to 5.00%; $275,000 Series N, Infrastructure Revolving Fund Program Revenue Refunding Bonds, maturing on June 1, 2003 and June 1, 2004 at 2.00%; $290,000 Series OT, Infrastructure Revolving Fund Program Revenue Refunding Bonds, maturing each June 1, 2003 and June 1, 2004, at 2.25% to 2.75%; $3,865,000 Series O (AMT), Infrastructure Revolving Fund Program Revenue Refunding Bonds, maturing each June 1, beginning June 1, 2004 through 2012, at 2.00% to 4.00%; $675,000, Series F, Solid Waste Revolving Fund Program Revenue Refunding Bonds, maturing each June 1 through 2015, at 2.00% to 5.00%.

$13,420,000, 2002 Series K, Governmental Agencies Program Revenue and Revenue Refunding Bond, dated December 19. 2002, maturing serially each August 1, through 2022 at 2.50% to 5.00%.

The Kentucky Higher Education Assistance Authority is the Commonwealth of Kentucky's agency for improving higher education opportunities by insuring eligible student loans and providing other financial aid and related services to eligible students.

The Authority is an issuer of student loans pursuant to the Federal Higher Education Act of 1965, as amended in Kentucky and Alabama. As such, the Authority is responsible for issuing loan insurance, providing collection assistance to lenders for delinquent loans, paying lender claims for loans, and collecting defaulted loans on which claims have been paid.

The Authority issued no bonds during the year ended June 30, 2003.

The Kentucky Higher Education Student Loan Corporation is empowered by KRS Chapter 164A to make and reinsure student loans with the United States of America, pursuant to the Federal Higher Education Act of 1965, and as a body corporate and politic acts as a financing authority to assure a secondary market for insured student loans. The Corporation is governed by a seven member board of directors consisting of the Chairman of the Council on Postsecondary Education, the Secretary of the Finance and Administration Cabinet, the Chairman of the Kentucky- Higher Education Assistance Authority, and four members chosen from the general public. The Corporation is reported as a component unit of the Kentucky Higher Education Assistance Authority. The Corporation is limited to a maximum principal outstanding of $553 million.

The Corporation issued $121,250,000 in Student Loan Revenue Bonds as follows:

The corporation issued two series, A and B, with an aggregate principal of $40,600,000 as follows:

$20,600,000, 2003 Series A, dated on the expected delivery date of May 20, 2003, were sold as Auction Rate Certificates (ARC) maturing December 1, 2032, and

$20,000,000, 2003 Series B, dated on the expected delivery date of May 20, 2003, were sold at a fixed rate of 1.65% per annum and maturing June 1, 2005.

The corporation issued two Senior Series (A-1 and A-2), both being issued as Auction Rate Certificates, dated May 20, 2003, aggregate principal $80,650,000, as follows:

$63,700,000 Student Loan Revenue Bonds, Senior Series 2003A-1, due each May 1, through 2033, interest due each May 1 and November 1, and

$16,950,000 Student Loan Revenue Bonds, Senior Series 2003A-2, due each May 1, through 2033, interest due each May 1 and November 1.

The Corporation issued three Student Loan Revenue Bond, Senior Series, 2002A-1, 2002A-2, and 2002A-3, dated August 7, 2002, with an aggregate principal of $150,000,000 as follows:

$55,450,000 Taxable Student Loan Revenue Bond, Senior Series, 2002A-1, maturing each May 1, through 2032 at a variable interest rate, and

$55,450,000 Taxable Student Loan Revenue Bond, Senior Series, 2002A-2, maturing each May 1, through 2032 at a variable interest rate, and

$39,100,000 Student Loan Revenue Bond, Senior Series, 2002A-3, maturing each May 1, through 2032 at a variable interest rate.

The Kentucky Local Correctional Facilities Construction Authority is a body corporate and politic as well as an agency and instrumentality of the Commonwealth created in 1982 pursuant to KRS 441.605 through 441.695, as amended, to provide additional and alternative methods for acquiring, constructing, improving or repairing, and financing both regional and local jail facilities.

The Authority issued no bonds during the year ended June 30, 2003.

The Kentucky School Facilities Construction Commission was created by act of the 1985 Extraordinary Session of the Kentucky General Assembly as the successor agency to the Kentucky School Building Authority (KSBA) and empowered pursuant to KRS 157.640 with all rights of successorship necessary to assure all legal and contractual functions and liabilities associated with the outstanding bonds issued in the name of the Authority, including refunding of then existing Authority debt. The Commission is an independent corporate agency and instrumentality of the Commonwealth pursuant to KRS 157.611 through 157.640 and empowered therein to: (1) act on behalf of local school districts to issue bonds in the name of the Commission and to enter into lease agreements with local boards of education to finance construction of new facilities or major renovation of existing facilities; (2) enter into agreements which may provide for a percentage discount, on a biennially renewable basis, of annual lease agreements due the Commission for those districts which participate; and (3) enter into lease agreements with the Department of Education to build State-owned facilities operated by the Department of Education.

During the fiscal year ended June 30, 2003, the Commission sold 94 school building revenue and revenue refunding bond issues having aggregate state participation of $68,118,238 maturing through October 1, 2024, at interest rates of 1.25% to 5.40%. Due to the length of the listing, the reader is referred to the detail Schedule of Bonds Outstanding at June 30, 2003, which is contained in the publication titled SUPPLEMENTARY INFORMATION to the Kentucky Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2003. Copies of this report are available from the Division of Statewide Accounting, Financial Reporting Branch, 483 Capitol Annex, Frankfort, Kentucky 40601.

The Kentucky Agricultural Finance Corporation is a public corporation and governmental agency of the Commonwealth established by Act of the 1984 General Assembly for the purpose of "improving and promoting the health, welfare, and prosperity of the people of the Commonwealth through the stimulation of existing agricultural ventures." The Authority's bond program is designed to help lender banks and other financial institutions assist eligible farmers in obtaining low interest loans through the issuance of tax exempt agricultural revenue bonds. The Authority's debt does not constitute a legal or moral obligation of the Commonwealth, and this debt is not included in these general purpose financial statements.

The Corporation issued no bonds during the year ended June 30, 2003.

The Kentucky Economic Development Finance Authority established in 1958 under KRS Chapter 154, is an independent agency of the Commonwealth that operates in close cooperation with the Secretary of the Economic Development Cabinet to promote the industrial development of Kentucky.

The Authority issued no bonds during the fiscal year ended June 30, 2003.

NOTES PAYABLE:

At June 30, 2003, the following entities had notes payable as follows:

The Kentucky Asset/Liability Commission, created by House Bill 5 enacted by the 1997 Extraordinary Session of the Kentucky General Assembly, develops policies and strategies to minimize the impact of fluctuating interest rates on the Commonwealth's interest sensitive assets and liabilities. It is authorized to issue tax and revenue anticipation notes, project notes and funding notes. Tax and revenue notes are to be used for the purpose of providing monies to discharge expenditure demands in anticipation of revenues and taxes to be collected during the fiscal year. Project notes are to be used for authorized projects upon request of the Finance and Administration Cabinet, to be repaid through financing agreements or alternative agreements. Funding notes are to be used for the purpose of funding judgments against the Commonwealth or any state agency.

The commission issued no Notes during the year ended June 30, 2003.

The Kentucky Housing Corporation reported $5,285,000 in Notes Payable for the current portion of long term debt/Notes Payable during Fiscal Year 2003. The Corporation has two uncollateralized lines of credit with commercial banks. One of the lines of credit is used only to preserve tax exempt bond issuing capacity and borrowings are usually expected to be repaid upon the next issuance of Housing Revenue Bonds. The line provides for borrowings up to $6,500,000 bears interest at the federal funds rate plus 50 basis points and matures March 31, 2003.

The second line of credit is used only for the purchase of single family mortgage loans and borrowings are repaid upon the next issuance of Housing Revenue Bonds. The line provides for borrowings up to $30,000, bears interest at one month LIBOR plus 20 basis points and matures March 1, 2004.

Kentucky Educational Television reported Notes Payable of $516,075,000 for the year ending June 30, 2003, relating to payments to PBS in connection with the acquisition of Literacy Link assets.

The University of Louisville reported $895,000 in Notes Payable to the University of Louisville Foundation Inc. for the construction of Cardinal Park on an unsecured, non-interest bearing basis due upon receipt of pledges by the Association.

Morehead State University had Notes Payable of $570,000, which include $500,000 in a 5.00% Note Payable to an individual, repayable in annual installments with the final installment due June, 2010; and $70,000 in a 5.00% note payable to an individual, repayable in annual installments with the final installment due June, 2010.

Murray State University reported Notes Payable of $13,016,000 for various reasons.

Northern Kentucky University reported $349,000 in Notes Payable for various reasons.

Western Kentucky University reported Notes Payable of $1,983,979 related to the payment of debt service on substantially all the University's residence halls, which have been transferred to the WKU Student Life Foundation, Inc. These payments represent the principal and interest allocation for the Garret Conference Center and the Downing University Center, title to which was retained by the University, of the Housing and Dining Revenue Series H and Series K bonds transferred to the WKU Student Life Foundation, Inc.

The General Fund, special revenue, and internal service funds in which leases are recorded will liquidate the capital lease obligations. The compensated absences will be liquidated by applicable governmental and internal service funds that account for the salaries and wages of the related employees. The net pension obligations will be liquidated by the State's governmental and internal service funds that contribute toward the pension funds, based on the statutorily required contribution rates. The General Fund and transportation related Special Revenue fund will generally liquidate other claims and judgments attributable to the governmental activities.

Future debt service requirements for aggregated Notes Payable for the Primary Government at June 30, 2003, are as follows (Expressed in Thousands)

Year Ending June 30	Principal	Interest	Totals
2004	$ 31,475	$ 2,561	$ 34,036
2005	12,875	1,697	14,572
2006	13,420	1,150	14,570
2007	5,830	547	6,377
2008	6,095	284	6,379
2009-2013			
Total	$ 69,695	$ 6,239	$ 75,934

Future debt service requirements for aggregated Notes Payable for the Component Units at June 30, 2003, are as follows (Expressed in Thousands)

Year Ending June 30	Principal	Interest	Totals
2004	$ 6,802	$ 763	$ 7,565
2005	1,404	697	2,101
2006	1,623	629	2,252
2007	1,349	562	1,911
2008	1,146	504	1,650
2009-2013	1,446	2,185	3,631
2014-2018	1,335	1,963	3,298
2019-2023	1,930	1,618	3,548
Thereafter	5,580	1,555	7,135
Total	$ 22,615	$ 10,476	$ 33,091

Changes in long-term liabilities for the fiscal year ended June 30, 2003, are summarized as follows (Expressed in Thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year	Due Thereafter
Governmental Activities						
Compensated absences	$ 243,206	$ 114,849	$ (127,911)	$ 230,144	$ 127,942	$ 102,202
Capital leases	24,712	7,591	(11,094)	21,209	8,565	12,644
Claims liability	113,389	24,387	(19,161)	118,615	16,745	101,870
Obligations under security lending	25,000		(25,000)			
Long-term accounts payable	3		(3)			
Notes payable	81,535		(11,840)	69,695	31,475	38,220
Bonds payable	3,405,046		(239,823)	3,165,223	276,071	2,889,152
Unamortized premiums	58,150		(4,780)	53,370	4,803	48,567
Unamortized discounts	(44,923)		12,012	(32,911)	(2,962)	(29,949)
Deferred amount on refunding	(6,272)		(88)	(6,360)	(572)	(5,788)
Judgments and contingent liabilities	350,204	44,976	(122,753)	272,427	35,234	237,193
Unfunded employer pension contributions	78,016	29,349		107,365		107,365
Total Governmental Activities	$ 4,328,066	$ 221,152	$ (550,441)	$ 3,998,777	$ 497,301	$ 3,501,476
Business-Type Activities						
Compensated absences	$ 8,506	$ 3,557	$ (3,596)	$ 8,467	$ 4,644	$ 3,823
Capital leases	183	150	(99)	234	77	157
Claims and claims adjustment liability	1,365,839	5,816	(182,117)	1,189,538	137,299	1,052,239
Notes payable	339		(339)			
Prize liability	252,821		(4,887)	247,934	49,099	198,835
Judgments and contingent liabilities	120	12	(35)	97		97
Total Business-Type Activities	$ 1,627,808	$ 9,535	$ (191,073)	$ 1,446,270	$ 191,119	$ 1,255,151
Total Primary Government	$ 5,955,874	$ 230,687	$ (741,514)	$ 5,445,047	$ 688,420	$ 4,756,627
Component Units (Major)						
Compensated absences	$ 20,615	$ 7,117	$ (5,819)	$ 21,913	$ 19,774	$ 2,139
Capital leases	53,215	11,054	(10,182)	54,087	12,927	41,160
Notes payable	5,041	122,124	(120,985)	6,180	5,480	700
Bonds payable	2,985,461	774,985	(467,736)	3,292,710	133,425	3,159,285
Total Component Units	$ 3,064,332	$ 915,280	$ (604,722)	$ 3,374,890	$ 171,606	$ 3,203,284

Note 16

COMMITMENTS AND CONTINGENCIES

Litigation - The Commonwealth, its units and employees are parties to numerous legal proceedings, many of which normally occur in governmental operations. The legal proceedings are not, in the opinion of the Attorney General, likely to have a material adverse impact on the Commonwealth's financial position.

In addition, the Commonwealth and its units are involved in certain other legal proceedings which, if decided adversely to the Commonwealth, may require the Commonwealth to make material future expenditures for expanded services or capital facilities or may impair future revenue sources or may require the refund of prior collections. It is neither possible to determine the outcome of these proceedings nor to estimate the possible effects adverse decisions may have on the future expenditures or revenue sources of the Commonwealth.

Judgments and Contingencies – A contingency is a suit that has been filed but there has been no decision rendered by the court systems. Amounts reported include claims made against the Commonwealth during the period preceding June 30 of the current fiscal year. Claims are classified according to their chance of occurrence as either remote, possible, or probable. Claims are further classified as payable within one year, within future periods, or a combination of the two periods.

A judgment is any amount that is to be repaid as the result of a court decision or an award for the condemnation of private property. Reasons for such amounts also arise from employment, contracts, and government involvement of personnel or property. The General Fund, Agency Revenue Fund, Transportation Fund, and the State Parks Fund generally pay claims and judgments. These amounts are classified as either payable within one year, in future periods, or a combination of the two periods if they remain unpaid after June 30 of the current fiscal year.

Federal Grants - The Commonwealth receives significant financial assistance from the U.S. Government in the form of grants and Federal revenue sharing entitlements. Entitlement to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowance as a result of these audits becomes a liability of the Commonwealth.

Leases - The Commonwealth has entered into various operating leases for land and buildings. All leases contain termination clauses providing for the cancellation after 30, 60, or 90 days written notice to the lessors. In addition, all leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the legislature. It is expected that in the normal course of business similar leases will replace most of these leases. Primary Government expenditures for rent under leases for the years ended June 30, 2003 and 2002 amounted to $81.1 million and $72.8 million, respectively. The operating leases of the Commonwealth do not contain escalation clauses for rental or expense that would require adjustment to be in compliance with GASB Statement 13.

Compensated Absences – Compensated absences include accumulated, unpaid vacation and compensatory time accruals. The amount accruing to proprietary funds has been included in the respective funds when material. The policy of the Commonwealth is to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.5 to 15.00 hours per month, as determined by the length of service, with the maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. Compensatory leave is granted to authorized employees on an hour-for-hour basis or a time and one half basis. Compensated absences are generally paid from the General Fund, the Transportation Fund, the Federal Fund, the Agency Revenue Fund, and the Other Special Revenue Fund. At June 30, 2003, the estimated liability for annual and compensatory leave was $230,144,801 for the governmental funds, and $8,466,429 in the business-type activities.

Compensated absence liabilities for the major component units totaled $21,913,000 at June 30, 2003.

Sick Leave - The policy of the Commonwealth is to record the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee is absent due to illness, injury, or related family death, there was no liability recorded for sick leave at June 30, 2003. The estimated accumulated amount of unused sick leave at that date for the governmental and proprietary funds was $340,316,568 and $11,026,711 respectively.

Construction Projects - The Transportation Cabinet, at June 30, 2003, had contractual commitments of approximately $680,984,042 for the construction of numerous highway projects. It is anticipated that these projects will be funded with approximately 34 percent State funds, 64 percent Federal funds, and the remaining 2 percent with proceeds from the sale of revenue bonds.

Deferred Revenue – Deferred revenue may result from the recognition of assets before the earnings process is complete (unearned revenue), or if using the modified accrual basis of accounting, deferred revenue may represent unavailable revenues. "Unavailable" means that the assets are not available to finance expenditures of the current fiscal period. Regardless of whether the deferred revenue is unearned or unavailable, it is still reported as a contingent liability.

Note 17

SUBSEQUENT EVENTS

The debt-issuing entities of the Commonwealth issued or agreed to administer State participation in debt service payments for revenue bonds sold after June 30, 2003, and prior to December 19, 2003, and reported other subsequent events for the same period, as described below.

The Kentucky Economic Development Finance Authority approved Authority loans and New Economy grants at June 30, 2003, totaling approximately $26,700,000 for which funds had yet to be disbursed.

The Kentucky Asset/Liability Commission issued $171,260,000 Notes, including:

$171,260,000 in Project Refunding Notes, 2003 General Fund Series A, dated July 17, 2003, maturing each July 15 through 2013, at 1.00% to 5.00%.

The Kentucky Housing Corporation issued $50,000,000 2003 Series D and Series E Housing Revenue Bonds, dated November 13, 2003. The Series D bonds consist of $9,465,000 serial bonds biannually due each July 1 and January 1 through July 1, 2014; $2,910,000 term bonds due January 1, 2018, at 4.65%, $1,955,000 term bonds due July 1, 2018, at 4.65%, $3,825,000 term bonds due January 1, 2022 at 4.90%, $2,145,000 term bonds due July 1, 2022, at 4.90%, $11,250,000 term bonds due July 1, 2028, at 3.85%, $6,790,000 term bonds due July 1, 2033, at 5.10%, $6,660,000 term bonds due January 1, 2034, at 5.10%. The $5,000,000 2003 Series E Bonds (AMT) are Variable Rate Term bonds due January 1, 2034. The proceeds will be used to finance mortgage loans for persons and families of lower and moderate income, and to retire balances outstanding under a bank line of credit used for interim purchases of single-family loans.

Kentucky School Facilities Construction Commission administers State participation in the debt service payments of local public school district revenue bonds issued subsequent to June 30, 2003, and maturing as to principal through 2024 is displayed in the spreadsheet on page 102.

State Property and Buildings Commission issued $117,145,000 in Revenue and Revenue Refunding Bonds, Project No. 77, dated August 20, 2003. Serial bonds include $97,055,000 maturing each August 1 through 2019, at 2.00% to 5.25%. Term bonds include $20,090,000 due August 1, 2023 at 5.00%

The Commission issued $151,225,000 in Revenue Bonds, Project No. 78, dated October 9, 2003, maturing each October 1, through 2016, at 1.38% to 5.14%.

The Commission issued $145,290,000 in Revenue Bonds, Project No. 79, dated October 9, 2003, maturing each October 1, through 2023, at 4.10% to 5.125%.

The Commission issued $39,985,000 in Agency Fund Revenue and Revenue Refunding Bonds, Project No. 80, Series A, dated October 30, 2003, maturing each May 1 through 2024, at 2.0% to 5.250%.

The Commission issued $55,300,000 in Agency Fund Revenue Bonds, Project No. 81, dated November 19, 2003, maturing each November 1 through 2023, at 2.0% to 5.0%.

University of Kentucky issued $29,775,000 in Consolidated Educational Buildings Revenue Bonds, Series S, dated July 1, 2003, maturing each May 1, through 2024, at 2.00% to 4.50%.

The university issued $52,815,000 Housing and Dining System Revenue Bonds, Series S, dated August 1, 2003, maturing each June 1 through 2023, at 2.0% to 5.0%

The university issued $4,235,000 in Housing and Dining System Refunding Revenue Bonds, Series M and O (Second Series), dated October 1, 2003. Serial bonds in the amount of $3,225,000 maturing each June 1 through 2022, at 1.50% to 4.375%. Term bonds include $420,000 due June 1, 2015, at 4.00%, $255,000 due June 1, 2017 at 4.00%, and $335,000 due June 1, 2024, at 4.50%.

The university issued $17,635,000 in Consolidated Educational Buildings Revenue Bonds, Series T, dated October 1, 2003, maturing each May 1 through 2023, at 1.00% to 4.50%.

The university issued $9,335,000 in Consolidated Educational Buildings Refunding Revenue Bonds, Series O (Second Series) dated October 1, 2003, maturing each May 1 through 2015, at 2.250% to 3.50%.

Murray State University issued $2,855,000 in Consolidated Educational Buildings Refunding Revenue Bonds, Series H (Second Series) dated September 1, 2003, maturing each May 1 through 2012, at 2.00% to 3.70%.

The university issued $2,500,000 in Housing and Dining System Revenue Bonds: Series P, dated June 1, 2003, maturing each September 1, through 2023, interest due each March 1 and September 1, at 1.10% to 4.10%.

Western Kentucky University has issued $11,135,000 in Consolidated Educational Buildings Revenue Bonds, Series P, dated September 1, 2003 maturing each May 1 through 2023, at 2.00% to 4.750%.

The university has also issued $9,830,000 in Consolidated Educational Buildings Refunding Revenue Bonds, Series O, dated July 1, 2003 maturing each May 1 through 2010, at 2.00% to 2.85%.

The university has issued $11,145,000 in Consolidated Educational Buildings Revenue Bonds, Series Q, dated December 1, 2003, maturing serially each May 1 through 2023, at 1.50% to 4.250%.

University of Louisville issued $21,310,000 Consolidated Educational Buildings Revenue Bonds, Series N, dated June 1, 2003, delivered July 9, 2003. The $18,410,00 serial bonds are due each May 1, through 2021, interest due each May 1 and November 1 at 2.00% to 4.125%. $2,900,000 term bond due May 1, 2023 at 4.125%.

The university has also issued $5,815,000 in Housing System Refunding Revenue Bonds, Series F, dated August 1, 2003, due each November 1, through 2014 at 2.50% to 4.20%.

The university issued $11,235,000 in Consolidated Educational Buildings Revenue Bonds, Series O, dated October 1, 2003, maturing each May 1 through 2023, at 1.00% to 4.250%.

Morehead State University issued $4,270,000 in Housing and Dining System Revenue Bonds, Series R, dated June 1, 2003, due each November 1 through 2020, interest due each May 1 and November 1, at 1.00% to 4.10%.

The 2002-04 Budget of the Commonwealth authorizes the issuance of $52 Million of the appropriated agency fund backed lease appropriation revenue bonds on behalf of the ***Kentucky State Fair Board***, by the State Property and Buildings Commission and/or the Asset/Liability Commission, for the purpose of constructing the 237,000 sq. ft. South Wing C expansion project. The initial issuance, in fiscal year 2004, is for $52 million of one year Bond Anticipation Notes (BANS) by the Ky. Asset/Liability Commission (AlCo). The AlCo BANS are to be taken out by long term State Property and Building Commission (SPBC) bonds. The interest rate on the takeout financing will be hedged though an interest rate swap. Management anticipates sufficient revenues will exist in the Fair Board budgets to meet the lease payment/debt service requirements.

The 2003 Kentucky General Assembly transferred responsibility for the Kentucky Affordable Prepaid Tuition program from the Office of the State Treasurer to the ***Kentucky Higher Education Assistance Authority***. This transfer was mandated by Executive Order 2003-052, which transferred all funds, records, contracts, equipment and personnel from the Office of the State Treasurer to the Authority, effective July 1, 2003.

School District	Delivery Date	Principal at Issue	State Share	Interest Rates
Breckinridge County	08/06/03	$ 6,795,000	$ 997,114	2.25-3.875%
Carter County	11/04/03	3,510,000	2,070,469	2.25%
Casey County	09/30/03	695,000	695,000	1.30-4.75%
Christian County	07/24/03	3,980,000	610,391	2.20-3.125%
Danville Independent	12/03/03	515,000	447,198	3.00%
Elizabethtown Independent	09/30/03	4,510,000	588,169	2.65-4.50%
Elliott County	08/05/03	1,215,000	561,700	1.00-4.40%
Gallatin County	07/31/03	2,730,000	159,104	1.05-3.75%
Green County	07/30/03	610,000	610,000	2.30-3.30%
Greenup County	09/17/03	3,050,000	685,698	1.15-4.65%
Harlan County	07/22/03	710,000	700,411	1.20-3.20%
Henderson County	10/21/03	2,225,000	450,451	1.05-3.50%
Knott County	08/12/03	1,370,000	481,546	1.65-4.35%
Letcher County	11/12/03	455,000	413,988	1.70-3.90%
Letcher County	08/21/03	3,255,000	3,255,000	1.15-4.80%
Lewis County	8/5/2003	2,705,000	610,402	1.60-4.30%
Magoffin County	07/30/03	1,620,000	735,711	1.25-3.30%
Mercer County	09/03/03	1,900,000	36,059	1.00-4.65%
Monroe County	11/13/03	2,780,000	997,915	1.15-4.60%
Muhlenberg County	09/11/03	7,640,000	1,261,434	1.10-4.70%
Oldham County	10/29/03	14,805,000	2,076,490	1.05-4.85%
Owen County	07/29/03	355,000	118,403	.7269-3.00%
Owensboro Independent	08/05/03	4,920,000	447,177	1.00-3.20%
Paintsville Independent	10/28/03	375,000	116,433	1.50-3.60%
Pineville Independent	07/30/03	1,015,000	65,472	3.20-4.28%
Pulaski County	08/05/03	2,240,000	600,356	2.00-4.20%
Rowan County	08/19/03	8,875,000	3,553,583	1.10-4.65%
Russell County	08/21/03	6,355,000	401,706	1.10-5.05%
Spencer County	7/31/2003	830,000	647,829	2.80%
		$ 92,040,000	$ 24,395,209	

Audited financial statements may be requested at the following addresses:

Bluegrass State Skills Corporation
Capital Plaza Tower
500 Mero Street
Frankfort, Kentucky 40601

Turnpike Authority of Kentucky
Room 92, Capitol Annex Building
Frankfort, Kentucky 40601

Kentucky Transportation Cabinet
501 High Street
Room 808
Frankfort, Kentucky 40622

Kentucky Center for the Arts
5 Riverfront Plaza
Louisville, Kentucky 40202-2989

Kentucky Economic Development Finance Authority
Capital Plaza Tower
500 Mero Street
Frankfort, Kentucky 40601

Kentucky Housing Corporation
1231 Louisville Road
Frankfort, Kentucky 40601

Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601

Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601

University of Louisville
2301 South 3rd Street
108 Grawemeyer Hall
Louisville, Kentucky 40292

Western Kentucky University
Vice President for Finance and Administration
1 Big Red Way
Bowling Green, Kentucky 42101-3576

Murray State University
322 Sparks Hall
Murray, Kentucky 42071

Kentucky State University
Office of Administrative Affairs
400 East Main Street
Frankfort, Kentucky 40601

Kentucky Lottery Corporation
1011 West Main Street
Louisville, Kentucky 40202-2623

Kentucky State Fair Board
Kentucky Fair and Exposition Center
P.O. Box 37130
Louisville, Kentucky 40233-7130

Kentucky Educational Television
600 Cooper Drive
Lexington, Kentucky 40502

Kentucky Higher Education Assistance Authority
1050 U.S. 127 South, Suite 102
Frankfort, Kentucky 40601

Kentucky Educational Savings Plan Trust
1050 U.S. 127 South, Suite 102
Frankfort, Kentucky 40601

Kentucky Infrastructure Authority
375 Versailles Road
Frankfort, Kentucky 40601

Kentucky Local Correctional Facilities Construction Authority
Suite 261 Capitol Annex
Frankfort, Kentucky 40601

Kentucky Judicial Form Retirement System
P.O. Box 791
Frankfort, Kentucky 40602

Kentucky Horse Park
4089 Iron Works Parkway
Lexington, Kentucky 40511

University of Kentucky
301 Peterson Service Building
Lexington, Kentucky 40506-0005

Eastern Kentucky University
Vice President for Business Affairs
521 Lancaster Avenue
Richmond, Kentucky 40475-3101

Morehead State University
Office of Accounting and Budgetary Control
207Howell-McDowell Administration Building
Morehead, Kentucky 40351-1689

Northern Kentucky University
Office of Business Affairs
Lucas Administration Center 726
Nunn Drive
Highland Heights, Kentucky 41099-8101

Kentucky Community and Technical College System
PO Box 14092
2760 Research Park Drive
Convention Building
Lexington, Kentucky 40512-4092

KAPT
KHEAA Building
100 Airport Road
Frankfort, Kentucky 40601

Kentucky Access
Department of Insurance
215 West Main Street
Frankfort, Kentucky 40601

Kentucky River Authority
70 Wilkinson Boulevard
Frankfort, Kentucky 40601

Council on Postsecondary Education
1024 Capital Center Drive, Suite 320
Frankfort, Kentucky 40601

Office of the Petroleum Storage Tank
Environmental Assurance Fund
81 C. Michael Davenport Blvd.
Frankfort, KY 40601

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF KENTUCKY
COMBINED SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	General Fund			
	Budgeted Amounts			
	Original	Final	Actual	Variance
Revenues				
Budgeted:				
Taxes	$ 6,589,000	$ 6,589,000	$ 6,515,096	$ (73,904)
Licenses, fees, and permits	28,100	28,100	25,452	(2,648)
Intergovernmental	6,900	6,900	76,428	69,528
Charges for services	3,000	3,000	7,336	4,336
Fines and forfeits	50,000	50,000	49,572	(428)
Interest and other investment income	(3,500)	(3,500)	(7,158)	(3,658)
Lottery proceeds	171,900	168,600	171,000	2,400
Other revenues	17,100	17,100	14,452	(2,648)
Total Budgeted Revenues	6,862,500	6,859,200	6,852,178	(7,022)
Non-Budgeted:				
Taxes				
Licenses, fees, and permits				
Intergovernmental				
Charges for services				
Fines and forfeits				
Interest and other investment income				
Other revenues			130,829	130,829
Escheat				
Transfers in (interfund)			329,789	329,789
Transfers in (intrafund)				
Total Non-Budgeted Revenues			460,618	460,618
Total Revenues	6,862,500	6,859,200	7,312,796	453,596
Expenditures				
General Government	2,012,096	2,012,449	1,928,137	84,312
Legislative and Judicial	265,081	256,083	230,593	25,490
Commerce	60,850	60,901	52,046	8,855
Education and Humanities	3,053,437	3,001,655	2,998,607	3,048
Human Resources	1,355,901	1,407,685	1,402,381	5,304
Justice	456,298	459,999	452,182	7,817
Natural Resources and Environmental Protection	56,927	58,197	58,029	168
Public Protection and Regulation	52,615	51,820	48,301	3,519
Transportation	7,195	7,196	6,484	712
Total Expenditures	7,320,400	7,315,985	7,176,760	139,225
Excess of Revenues over (under) Expenditures	(457,900)	(456,785)	136,036	592,821
Other Financing Sources (Uses)				
Proceeds from sale of bonds				
Total Other Financing Sources (Uses)				
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(457,900)	(456,785)	136,036	592,821
Fund Balance at July 1, as Restated		146,747	146,747	
Non-Budgeted Items			(1,298)	(1,298)
Fund Balance at June 30	$ (457,900)	$ (310,038)	$ 281,485	$ 591,523

ACCOMPANYING NOTES TO COMBINED FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Transportation Fund				Federal Fund			
Budgeted Amounts				Budgeted Amounts			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
$ 963,485	$ 963,485	$ 966,298	$ 2,813	$	$	$	$
108,668	108,668	101,459	(7,209)				
22,872	22,872	22,260	(612)				
9	9	4	(5)				
23,000	23,000	29,170	6,170				
3,095	3,095	3,947	852				
1,121,129	1,121,129	1,123,138	2,009				
						60	
		(35)	(35)			4,826,139	
						102	
						340	
						96,602	
		1,645	1,645			5,412	
		293	293			7,153	
		1,903	1,903			4,935,808	
1,121,129	1,121,129	1,125,041	3,912			4,935,808	
5,494	5,494	5,369	125	164,833	177,302	90,250	87,052
				6,542	6,570	3,683	2,887
				8,021	8,021	7,546	475
				675,422	684,202	658,792	25,410
				3,081,109	3,665,534	3,512,426	153,108
35,000	35,000	35,000		45,329	48,204	43,650	4,554
				66,594	66,944	42,950	23,994
				6,256	6,456	5,652	804
1,539,315	1,613,615	1,260,450	353,165	1,075,380	1,075,386	508,558	566,828
1,579,809	1,654,109	1,300,819	353,290	5,129,486	5,738,619	4,873,507	865,112
(458,680)	(532,980)	(175,778)	357,202			62,301	
(458,680)	(532,980)	(175,778)	357,202			62,301	
	554,041	554,041				41,998	
		(20,572)	(20,572)			(19,272)	
$ (458,680)	$ 21,061	$ 357,691	$ 336,630	$	$	$ 85,027	$

Continued

COMMONWEALTH OF KENTUCKY
COMBINED SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL AND MAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Agency Revenue Fund			
	Budgeted Amounts			
	Original	Final	Actual	Variance
Revenues				
Budgeted:				
Taxes	$	$	$	$
Licenses, fees, and permits				
Intergovernmental				
Charges for services				
Fines and forfeits				
Interest and other investment income				
Lottery proceeds				
Other revenues				
Total Budgeted Revenues				
Non-Budgeted:				
Taxes			193,112	
Licenses, fees, and permits			114,855	
Intergovernmental			32,130	
Charges for services			1,764,060	
Fines and forfeits			7,542	
Interest and other investment income			27,033	
Other revenues			254,312	
Escheat			66	
Transfers in (interfund)			563,439	
Transfers in (intrafund)			1,118,570	
Total Non-Budgeted Revenues			4,075,119	
Total Revenues			4,075,119	
Expenditures				
General Government	2,407,809	2,465,103	1,580,659	884,444
Legislative and Judicial	21,954	22,005	11,092	10,913
Commerce	35,495	36,977	33,286	3,691
Education and Humanities	70,687	74,303	55,763	18,540
Human Resources	617,131	874,151	760,712	113,439
Justice	85,664	86,666	75,936	10,730
Natural Resources and Environmental Protection	41,383	41,489	30,094	11,395
Public Protection and Regulation	85,893	85,895	65,225	20,670
Transportation	283,785	283,010	121,410	161,600
Total Expenditures	3,649,801	3,969,599	2,734,177	1,235,422
Excess of Revenues over (under) Expenditures			1,340,942	
Other Financing Sources (Uses)				
Proceeds from sale of bonds				
Total Other Financing Sources (Uses)				
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses			1,340,942	
Fund Balance At July 1, As Restated			772,063	
Non-Budgeted Items			(1,366,134)	
Fund Balance At June 30	$	$	$ 746,871	$

THE ACCOMPANYING NOTES TO COMBINED FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

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COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Original	Final	Actual	Variance
Revenues				
Budgeted:				
Taxes	$ 6,589,000	$ 6,589,000	$ 6,515,096	$ (73,904)
Licenses, fees, and permits	28,100	28,100	25,452	(2,648)
Intergovernmental	6,900	6,900	76,428	69,528
Charges for services	3,000	3,000	7,336	4,336
Fines and forfeits	50,000	50,000	49,572	(428)
Interest and other investment income	(3,500)	(3,500)	(7,158)	(3,658)
Lottery proceeds	171,900	168,600	171,000	2,400
Other revenues	17,100	17,100	14,452	(2,648)
Transfers In				
Total Budgeted Revenues	6,862,500	6,859,200	6,852,178	(7,022)
Non-Budgeted:				
Other revenues			130,829	130,829
Transfers in (interfund)			329,789	329,789
Total Non-Budgeted Revenues			460,618	460,618
Total Revenues	6,862,500	6,859,200	7,312,796	453,596
Expenditures				
General Government:				
Cabinet of the General Government:				
Governor's Office	8,916	8,916	8,383	533
Department of Veterans Affairs	14,073	14,073	14,046	27
Office of the State Budget Director	3,365	3,365	3,335	30
State Planning Fund	477	477	477	
Unified Prosecutorial System: Commonwealth Attorneys	25,108	25,140	24,862	278
County Attorneys	21,180	21,180	20,910	270
Department of Agriculture	19,249	19,250	18,975	275
Office of the Attorney General	12,985	12,985	12,873	112
Auditor of Public Accounts	5,260	5,260	5,206	54
Registry of Election Finance	1,437	1,437	1,245	192
Department of Military Affairs	10,694	16,594	16,291	303
Department of Local Government	8,774	8,774	8,774	
Local Government: Economic Assistance Fund	32,941	31,037	31,037	
Economic Development Fund	40,028	38,761	38,761	
Area Development Fund	831	831	831	
Secretary of State	2,260	2,260	2,032	228
Secretary of Treasury	2,217	2,217	2,030	187
Board of Elections	5,880	5,880	4,584	1,296
Personnel Board	579	579	542	37
School Facilities Construction Commission	75,821	75,821	75,663	158
Executive Branch Ethics Commission	326	376	353	23
Commission on Human Rights	1,927	1,927	1,927	
Commission on Women	270	270	269	1
Council on Postsecondary Education	99,177	99,177	95,417	3,760
Education Professional Standards Board	12,434	12,434	11,439	995
Emergency Medical Services Board	2,504	2,504	2,340	164
Governor's Office of Technology	300	300	300	
Budget Reserve Trust Fund	5,087	5,087		5,087
Personnel Cabinet: General Operations	1,507	1,507	1,492	15

	Original	Final	Actual	Variance
Cabinet for Universities:				
Eastern Kentucky University	$ 71,668	$ 71,668	$ 71,668	$
Kentucky State University	22,413	22,412	22,011	401
Morehead State University	41,729	41,730	41,730	
Murray State University	50,388	50,388	50,388	
Northern Kentucky University	45,258	45,258	45,258	
University of Kentucky	304,756	304,756	304,744	12
University of Louisville	172,576	172,577	171,976	601
Western Kentucky University	69,025	69,025	68,943	82
Kentucky Community and Technical College System	185,313	185,313	185,313	
Revenue Cabinet: General Operations	66,588	66,588	63,700	2,888
Office of Property Valuation Administrators	27,432	27,432	27,431	1
Finance and Administration Cabinet:				
General Administration & Support	5,832	5,832	5,803	29
Special Accounts - Capital Construction	100	100	100	
Debt Service	245,498	245,498	235,850	9,648
Office of the Controller	5,939	5,939	5,696	243
Department for Administration	3,542	3,542	3,542	
Department for Facilities Management	7,876	7,876	7,539	337
Kentucky Higher Education Assistance Authority	53,556	53,556	53,062	494
Special Accounts - Tobacco Settlement	125,600	125,600	125,600	
County Costs	22,631	22,631	20,800	1,831
Appropriations Not Otherwise Classified:				
Judgements	61,661	56,031	4,177	51,854
Board of Claims Awards	600	1,200	874	326
Guardian Ad Litem	3,200	3,600	3,600	
Prior Year Claims	400	543	109	434
Unredeemed Checks Refunded	1,000	3,004	2,252	752
Involuntary Commitments	60	60	52	8
Blanket Employee Bonds	100	100	82	18
Frankfort In Lieu of Taxes	195	195	195	
Frankfort Cemetery	3	3	3	
Police and Firemen Life Insurance	250	250	125	125
Master Commissioner Employers Retirement	200	200	100	100
Master Commissioner Social Security	313	313	313	
Workers' Compensation	502	502	500	2
Attorney General Expense	225	225	124	101
Medical Malpractice Liability Insurance Reimbursements	60	83	83	
Total General Government	2,012,096	2,012,449	1,928,137	84,312
Legislative and Judicial:				
General Assembly	20,926	19,426	11,360	8,066
Legislative Research Commission	33,747	33,747	25,559	8,188
Judicial Retirement System	2,501	2,501	2,500	1
Court of Justice - Court Facility Use	533	533		533
Court of Justice - Operation and Administration	144,659	144,660	144,660	
Court of Justice - Local Facility Support	62,715	55,216	46,514	8,702
Total Legislative and Judicial	265,081	256,083	230,593	25,490

Continued

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Original	Final	Actual	Variance
Commerce:				
Economic Development Cabinet:				
Office of the Secretary	$ 1,392	$ 1,393	$ 1,275	$ 118
Administration and Support	2,180	2,180	1,847	333
Financial Incentives	9,770	9,770	2,444	7,326
Community Development	2,856	2,856	2,569	287
Business Development	2,518	2,518	2,034	484
Tourism Cabinet: Office of the Secretary	4,024	4,024	3,833	191
Breaks Interstate Park	196	196	196	
Travel Development	6,900	6,900	6,784	116
Kentucky State Fair Board	407	407	407	
Kentucky Horse Park	1,750	1,800	1,800	
Department of Parks	28,857	28,857	28,857	
Total Commerce	60,850	60,901	52,046	8,855
Education, Arts and Humanities Cabinet:				
Office of the Secretary	3,352	3,352	3,337	15
Commission on Deaf and Hard of Hearing	886	886	885	1
Kentucky Heritage Council	921	921	921	
Kentucky Arts Council	4,524	4,524	4,504	20
Department of Education:				
Support Education Excellence In KY (SEEK)	2,295,592	2,295,592	2,295,592	
Executive Policy and Management	696	696	695	1
Bureau of Support Services	11,342	11,342	11,332	10
Learning Results Services	559,551	507,769	506,741	1,028
Kentucky Education Television Authority	14,548	14,548	14,548	
Kentucky Historical Society	5,985	5,985	5,985	
Kentucky Center for the Arts Corporation	604	604	604	
Libraries and Archives -				
Direct Local Aid	5,967	5,967	5,965	2
General Operations	7,257	7,257	7,088	169
Teachers' Retirement System	90,113	90,113	88,461	1,652
Workforce Development Cabinet:				
Administration and Program Support	1,116	1,116	1,086	30
Teacher Retirement Employer Contribution Match	4,628	4,628	4,628	
Department for the Blind	1,283	1,283	1,283	
Department of Employment Services	69	69	69	
Department for Technical Education	23,151	23,150	23,030	120
Department for Adult Education & Literacy	10,807	10,808	10,808	
Department of Vocational Rehabilitation	11,045	11,045	11,045	
Total Education and Humanities	3,053,437	3,001,655	2,998,607	3,048
Human Resources:				
Cabinet for Families and Children:				
Administrative Services	27,660	27,660	24,444	3,216
Office of Family Resources and Youth Services Centers		51,783	51,216	567
Community Based Services	280,667	280,667	279,450	1,217
Cabinet for Health Services:				
Administrative Support	4,098	4,606	4,591	15
Office of the Inspector General	5,259	5,260	5,241	19
Department of Public Health	56,201	55,693	55,583	110
Department for Mental Health and Mental Retardation	168,530	168,530	168,405	125
Department for Medicaid Services	17,848	17,848	17,848	
Medicaid Services Benefits	752,374	752,374	752,374	
Office Of Certificate Of Need	132	132	97	35
Commission for Children With Special Health Care Needs	16,710	16,710	16,710	
Office of Aging Services	26,422	26,422	26,422	
Total Human Resources	1,355,901	1,407,685	1,402,381	5,304

	Original	Final	Actual	Variance
Justice Cabinet:				
Office of the Secretary	$ 8,017	$ 8,017	$ 7,792	$ 225
Department of State Police	78,075	78,075	73,224	4,851
Department of Juvenile Justice	82,611	82,612	82,611	1
Department of Corrections:				
Management	15,223	15,223	15,223	
Adult Institutions	189,291	189,291	187,091	2,200
Local Jail Allotment	15,707	15,707	15,167	540
Community Services and Local Facilities	67,374	71,074	71,074	
Total Justice	456,298	459,999	452,182	7,817
Natural Resources and Environmental Protection Cabinet:				
General Administration & Support	9,445	9,321	9,256	65
Kentucky River Authority	379	379	276	103
Environmental Quality Commission	253	254	254	
Kentucky Nature Preserves Commission	981	981	981	
Department for Environmental Protection	22,886	23,761	23,761	
Department for Natural Resources	12,931	14,200	14,200	
Department for Surface Mining Reclamation and Enforcement	10,052	9,301	9,301	
Total Natural Resources and Environmental Protection	56,927	58,197	58,029	168
Public Protection and Regulation Cabinet:				
General Operations	261	261	167	94
Board of Claims and Crime Victims Compensation	635	635	546	89
Board of Tax Appeals	478	478	449	29
Kentucky Racing Commission	509	509	509	
Public Service Commission	13,038	12,244	9,468	2,776
Department - for Public Advocacy	23,925	23,925	23,925	
of Alcoholic Beverage Control	250	250	250	
of Housing, Buildings, and Construction	1,718	1,718	1,718	
for Mines and Minerals	9,365	9,365	9,061	304
Labor Cabinet - Office of the Secretary:	405	404	345	59
Department of Workplace Standards	2,031	2,031	1,863	168
Total Public Protection and Regulation	52,615	51,820	48,301	3,519
Transportation Cabinet:				
Air	397	397	397	
Public	6,798	6,799	6,087	712
Total Transportation	7,195	7,196	6,484	712
Total Expenditures	7,320,400	7,315,985	7,176,760	139,225
Excess of Revenues Over (Under) Expenditures	(457,900)	(456,785)	136,036	592,821
Fund Balance at July 1, as Restated		146,747	146,747	
Non-Budgeted Items			(1,298)	(1,298)
Fund Balance at June 30	$ (457,900)	$ (310,038)	$ 281,485	$ 591,523

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Revenues				
Budgeted:				
Taxes	$ 963,485	$ 963,485	$ 966,298	$ 2,813
Licenses, fees, and permits	108,668	108,668	101,459	(7,209)
Charges for services	22,872	22,872	22,260	(612)
Fines and forfeits	9	9	4	(5)
Interest and other investment income	23,000	23,000	29,170	6,170
Other revenues	3,095	3,095	3,947	852
Total Budgeted Revenues	1,121,129	1,121,129	1,123,138	2,009
Non-Budgeted:				
Taxes				
Licenses, fees, and permits				
Intergovernmental			(35)	(35)
Charges for services				
Fines and forfeits				
Interest and other investment income				
Other revenues				
Escheat				
Transfers in (interfund)			1,645	1,645
Transfers in (intrafund)			293	293
Total Non-Budgeted Revenue			1,903	1,903
Total Revenues	1,121,129	1,121,129	1,125,041	3,912
Expenditures				
Cabinet of the General Government:				
Governor's Office				
Kentucky Infrastructure Authority				
Office of the State Budget Director				
Governor's Office for Technology	125	125		125
Department of Veterans Affairs				
Small Business Advocacy				
Unified Prosecutorial System: Commonwealth Attorneys				
County Attorneys				
Department of Agriculture				
Office of the Attorney General				
Auditor of Public Accounts				
Registry of Election Finance				
Department of Military Affairs				
Kentucky Retirement Systems				
Agricultural Development: Statewide Phase				
Local Government: Development Districts				
Secretary of State				
Secretary of Treasury				
Board of:				
Accountancy				
Alcohol and Drug Counselors				
Auctioneers				
Barbering				
Chiropractic Examiners				
Professional Counselors				
Fee-Based Pastoral Counselors				
Interpreters for Deaf & Hard of Hearing				
Dentistry				
Dietitians and Nutritionists				
Elections				
Embalmers and Funeral Home Directors				
Education Professional Standards				
Architects				
Landscape Architects				
Examiners of Psychologists				
Examiners of Social Workers				
Hairdressers and Cosmetologists				
Hearing Instrument Specialists				
Proprietary Education				
Nursing Home Administrators' Licensing				

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
$	$	$	$	$	$	$	$
						193,112	
		60				114,855	
		4,826,139				32,130	
		102				1,764,060	
						7,542	
		340				27,033	
		96,602				254,312	
						66	
		5,412				563,439	
		7,153				1,118,570	
		4,935,808				4,075,119	
		4,935,808				4,075,119	
357	357	302	55	2,280	2,280	1,246	1,034
50,313	50,313	385	49,928	6,067	6,067	2,231	3,836
				923	923	268	655
1,225	1,465	179	1,286	1,089	1,089	689	400
				18,609	18,609	17,577	1,032
				45	45	20	25
977	977	816	161	843	843	139	704
415	415	327	88	62	62	9	53
2,955	3,255	3,095	160	3,505	3,505	2,747	758
2,351	2,351	2,138	213	2,341	2,341	1,414	927
				3,940	3,940	3,104	836
				202	202		202
40,721	50,425	40,664	9,761	18,681	18,681	17,170	1,511
				14,981	14,981	13,580	1,401
				156	156	120	36
52,434	52,434	36,146	16,288	2,236	2,236	278	1,958
				879	879	575	304
				816	816	734	82
				753	753	553	200
				62	62	51	11
				360	360	322	38
				226	241	229	12
				183	183	144	39
				50	50	35	15
				6	6	5	1
				25	25	20	5
				474	474	425	49
				68	68	52	16
	2,000	24	1,976	109	1,109	109	1,000
				240	240	217	23
3,020	3,020	389	2,631	1,379	1,379	692	687
				272	272	229	43
				55	55	45	10
				170	170	112	58
				141	141	92	49
				999	999	759	240
				51	51	50	1
				123	123	86	37
				69	69	56	13

Continued

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Transportation			
Board of: (Continued)	Original	Final	Actual	Variance
Medical Licensure	$	$	$	$
Nursing				
Ophthalmic Dispensers				
Optometric Examiners				
Art Therapists				
Occupational Therapy				
Respiratory Care Practitioners				
Marriage and Family Therapists				
Emergency Medical Services				
Geologists				
Personnel				
Pharmacy				
Physical Therapists				
Podiatry				
Engineers and Land Surveyors				
Speech Pathology and Audiology				
Veterinary Examiners				
Athletics Commission				
Real Estate Commission				
Real Estate Appraiser Board				
Commission on Human Rights				
Council on Postsecondary Education				
Commission on Women				
Personnel Cabinet:				
General Operations				
Public Employee Deferred Compensation Authority				
Cabinet for Universities:				
Eastern Kentucky University				
Kentucky State University				
Morehead State University				
Murray State University				
Northern Kentucky University				
University of Kentucky				
University of Louisville				
Western Kentucky University				
Kentucky Community and Technical College System				
Revenue Cabinet:				
General Operations	1,418	1,418	1,418	
Office of Property Valuation				
Finance and Administration Cabinet:				
Office of the Secretary - Debt Service	3,668	3,668	3,668	
Office of the Controller				
Kentucky Higher Education Assistance Authority				
County Costs				
Department for Administration	283	283	283	
Office Of Governmental Services Center				
Department for Facilities Management				
Campbell County Fiscal Court				
Daviess County Fiscal Court				
Fayette County Fiscal Court				
Hardin County Fiscal Court				
Jefferson County Fiscal Court				
Kenton County Fiscal Court				
Pike County Fiscal Court				
Warren County Fiscal Court				
Madison County Fiscal Court				
Christian County Fiscal Court				
Boone County Fiscal Court				
Total General Government	5,494	5,494	5,369	125

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
$	$	$	$	$ 1,993	$ 1,993	$ 1,965	$ 28
				4,696	4,695	3,886	809
				58	58	39	19
				152	152	152	
				11	11	7	4
				77	77	65	12
				183	183	111	72
				79	79	49	30
363	543	514	29	168	270	247	23
				133	133	83	50
				2	2		2
				835	835	811	24
				263	263	187	76
				15	15	12	3
				1,292	1,292	1,257	35
				83	83	73	10
				228	228	138	90
				159	159	139	20
				2,003	2,003	1,699	304
				615	615	534	81
573	573	409	164	24	24	1	23
4,260	4,260	2,877	1,383	14,537	14,537	5,978	8,559
					27	8	19
				14,526	14,526	12,823	1,703
				5,183	5,183	4,229	954
				127,614	143,113	142,850	263
				27,948	36,140	34,596	1,544
				92,864	92,864	56,999	35,865
				79,399	79,399	65,530	13,869
				73,602	98,602	94,324	4,278
				985,194	985,194	714,812	270,382
				343,036	343,036	23,946	319,090
				112,281	112,281	76,365	35,916
				245,622	245,622	90,565	155,057
				4,519	4,519	4,209	310
				3,894	3,894	2,706	1,188
				2,737	2,737	2,559	178
4,000	4,000	1,071	2,929	396	396	322	74
869	914	914		86,353	86,353	79,954	6,399
				1,425	1,425	1,400	25
				3,492	3,492	2,990	502
				1,462	1,462	1,229	233
				40	40	6	34
				4,066	4,066	3,421	645
				4,713	6,323	5,856	467
				13,034	15,134	13,903	1,231
				3,825	4,825	4,755	70
				34,474	35,224	33,371	1,853
				7,762	7,762	7,005	757
				3,998	3,998	3,257	741
				5,774	5,774	5,281	493
				1,700	1,700	1,095	605
				1,150	1,150	923	227
				4,650	6,650	5,753	897
164,833	177,302	90,250	87,052	2,407,809	2,465,103	1,580,659	884,444

Continued

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Legislative and Judicial:				
General Assembly	$	$	$	$
Legislative Research Commission				
Judicial Retirement System				
Court of Justice - Operations and Administration				
Total Legislative and Judicial				
Commerce:				
Economic Development Cabinet:				
Office of the Secretary				
Administration and Support				
Financial Incentives				
Community Development				
Business Development				
Tourism Cabinet: Office of the Secretary				
Travel Development				
Department of Parks				
Department of Fish and Wildlife Resources				
Total Commerce				
Education and Humanities Cabinet:				
Commission on the Deaf and Hard of Hearing				
Environmental Education Council				
Kentucky Heritage Council				
Kentucky Arts Council				
Office of the Secretary				
Department of Education:				
Learning Results Services				
Bureau of Support Services				
Kentucky Educational Television				
Kentucky Historical Society				
Libraries and Archives:				
Direct Local Aid				
General Operations				
Teachers' Retirement System				
Workforce Development Cabinet:				
Office of the Secretary:				
Administration & Program Support				
Department for the Blind				
Office of Training and Reemployment				
Department of Employment Services				
Department for Technical Education				
Department for Adult Education & Literacy				
Department of Vocational Rehabilitation				
Total Education and Humanities				
Human Resources:				
Cabinet for Families and Children:				
Administrative Services				
Disability Determination				
Community Based Services				
Family Resources and Youth Services				
Centers				

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
$	$	$	$	$ 399	$ 399	$	$ 399
				1,611	1,611		1,611
				172	172	151	21
6,542	6,570	3,683	2,887	19,772	19,823	10,941	8,882
6,542	6,570	3,683	2,887	21,954	22,005	11,092	10,913
				3,093	4,575	3,933	642
				30	30	27	3
				2,183	2,183	1,941	242
157	157	157		440	440	272	168
				249	249	25	224
				119	119		119
				2,000	2,000	1,175	825
14	14		14				
7,850	7,850	7,389	461	27,381	27,381	25,913	1,468
8,021	8,021	7,546	475	35,495	36,977	33,286	3,691
				281	281	165	116
				167	169	148	21
766	766	656	110	786	801	522	279
692	692	568	124	783	783	564	219
				449	449	27	422
491,060	491,060	479,010	12,050	5,851	9,451	8,328	1,123
563	563	530	33	2,188	2,188	1,275	913
700	700	462	238	1,106	1,106	707	399
487	487	183	304	627	627	466	161
424	424	291	133	9	9	4	5
1,808	1,808	1,577	231	1,795	1,795	1,227	568
				7,330	7,330	6,192	1,138
190	190	161	29	6,661	6,661	6,231	430
7,484	7,560	7,536	24	1,949	1,949	1,865	84
48,530	53,734	48,763	4,971				
53,727	53,727	50,813	2,914	6,052	6,052	5,830	222
13,037	16,537	15,517	1,020	20,637	20,637	19,020	1,617
12,625	12,625	12,624	1	11,104	11,104	281	10,823
43,329	43,329	40,101	3,228	2,912	2,911	2,911	
675,422	684,202	658,792	25,410	70,687	74,303	55,763	18,540
37,312	37,077	28,778	8,299	4,391	4,390	3,337	1,053
40,130	40,130	36,977	3,153	63	63	60	3
489,679	493,174	446,616	46,558	104,134	113,135	104,810	8,325
	235	90	145				

Continued

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Cabinet for Health Services:				
Administrative Support	$	$	$	$
Office of Inspector General				
Department of Public Health				
Department for Mental Health and Mental Retardation				
Department for Medicaid Services				
Medicaid Services Benefits				
Office of Certificate Of Need				
Commission for Children with Special Health Care Needs				
Office of Aging Services				
Total Human Resources				
Justice Cabinet:				
Office of the Secretary				
Department of State Police	35,000	35,000	35,000	
Department of Juvenile Justice				
Department of Criminal Justice Training				
Department of Corrections:				
Management				
Adult Institutions				
Community Service and Local Facilities				
Total Justice	35,000	35,000	35,000	
Natural Resources and Environmental Protection Cabinet:				
General Administration & Support				
Kentucky River Authority				
Environmental Quality Commission				
Kentucky Nature Preserves Commission				
Department for Environmental Protection				
Department for Natural Resources				
Department for Surface Mining -				
Reclamation & Enforcement				
Reclamation Projects				
Total Natural Resources and Environmental Protection				
Public Protection and Regulation Cabinet:				
General Operations				
Board of Claims and Crime Victims Compensation				
Kentucky Racing Commission				
Public Service Commission				
Department - for Public Advocacy				
of Alcoholic Beverage Control				
of Charitable Gaming				
of Financial Institutions				
of Housing, Buildings, and Construction				
of Insurance				
for Mines and Minerals				

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
$ 2,186	$ 2,611	$ 2,419	$ 192	$ 5,478	$ 5,477	$ 4,019	$ 1,458
10,543	10,118	9,515	603	2,677	2,677	1,186	1,491
141,121	141,121	123,208	17,913	65,849	65,849	40,373	25,476
41,724	41,724	35,287	6,437	190,821	190,821	174,017	16,804
44,010	53,413	40,709	12,704	20,624	20,624	16,219	4,405
2,245,465	2,816,033	2,759,771	56,262	200,011	445,943	391,817	54,126
				234	234	186	48
10,054	10,687	10,684	3	22,089	24,178	24,177	1
18,885	19,211	18,372	839	760	760	511	249
3,081,109	3,665,534	3,512,426	153,108	617,131	874,151	760,712	113,439
13,433	13,433	12,245	1,188	1,908	1,988	876	1,112
9,773	12,631	12,232	399	7,871	8,671	7,030	1,641
17,300	17,300	15,683	1,617	14,015	14,015	9,611	4,404
2,700	2,700	2,018	682	39,077	39,077	37,711	1,366
1,743	1,743	1,192	551	1,865	1,865	1,521	344
329	329	236	93	5,305	5,305	3,703	1,602
51	68	44	24	15,623	15,745	15,484	261
45,329	48,204	43,650	4,554	85,664	86,666	75,936	10,730
1,585	1,585	1,456	129	332	332	152	180
				3,266	3,266	649	2,617
				2	2		2
25	72	34	38	315	421	282	139
19,457	19,457	12,049	7,408	27,442	27,442	21,519	5,923
6,284	6,587	3,789	2,798	4,584	4,584	3,050	1,534
17,243	17,243	14,992	2,251	5,442	5,442	4,442	1,000
22,000	22,000	10,630	11,370				
66,594	66,944	42,950	23,994	41,383	41,489	30,094	11,395
				2,036	2,037	1,613	424
547	547	21	526	2,539	2,539	1,451	1,088
				15,002	15,003	11,048	3,955
260	260	260		2,524	2,524	259	2,265
1,569	1,569	1,547	22	3,026	3,026	2,672	354
				5,638	5,638	4,618	1,020
				3,461	3,461	2,679	782
				8,993	8,993	7,673	1,320
				12,827	12,827	10,808	2,019
				21,933	21,933	16,482	5,451
599	599	599		2,261	2,261	1,602	659

Continued

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Labor Cabinet:				
Office of the Secretary	$	$	$	$
Department of Workplace Standards				
Total Public Protection and Regulation				
Transportation Cabinet:				
Administration & Support	73,425	73,792	62,961	10,831
Revenue Sharing	273,698	272,357	219,998	52,359
Air Transportation				
Highways	986,765	1,041,796	757,754	284,042
Highways-Public Transportation				
Vehicle Regulation	31,914	32,157	27,278	4,879
Debt Service	167,661	167,661	167,300	361
Transfers To Capital Construction	5,840	5,840	5,840	
Road Fund Judgments	12	20,012	19,319	693
1990 Economic Development Bond Projects				
Total Transportation	1,539,315	1,613,615	1,260,450	353,165
Total Expenditures	1,579,809	1,654,109	1,300,819	353,290
Excess of Revenues over (under)				
Expenditures	(458,680)	(532,980)	(175,778)	357,202
Other Financing Sources (Uses)				
Proceeds From Sale of Bonds				
Total Other Financing Sources (Uses)				
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(458,680)	(532,980)	(175,778)	357,202
Fund Balances at July 1		554,041	554,041	
Non-Budgeted Items			(20,572)	(20,572)
Fund Balances at June 30	$ (458,680)	$ 21,061	$ 357,691	$ 336,630

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
$	$	$	$	$ 5,653	$ 5,653	$ 4,320	$ 1,333
3,281	3,481	3,225	256				
6,256	6,456	5,652	804	85,893	85,895	65,225	20,670
				32	32	6	26
13	19	18	1	9,933	9,900	7,138	2,762
1,040,571	1,040,571	485,145	555,426	166,505	166,506	58,167	108,339
30,112	30,112	19,431	10,681	2,506	2,506	2,085	421
4,684	4,684	3,964	720	12,046	11,303	8,270	3,033
				92,763	92,763	45,744	47,019
1,075,380	1,075,386	508,558	566,828	283,785	283,010	121,410	161,600
5,129,486	5,738,619	4,873,507	865,112	3,649,801	3,969,599	2,734,177	1,235,422
		62,301				1,340,942	
		62,301				1,340,942	
		41,998				772,063	
		(19,272)				(1,366,134)	
$	$	$ 85,027	$	$	$	$ 746,871	$

Budgetary Reporting

The Commonwealth of Kentucky requires that each branch of government prepare and submit a recommended budget to the General Assembly for each of the two fiscal years to be included in a biennial budget. These budgets are prepared principally on the cash basis. The Legislature reviews these budget requests, makes any necessary revisions, and legally adopts a biennial budget for each of the three branches of government. The Governor has the power to approve or veto each bill, subject to legislative override.

The financial plan for each fiscal year, as presented in a branch budget recommendation, shall be adopted with such modifications as made by the General Assembly (and explained in a budget memorandum) by the passage of the budget bill and such revenue and other acts necessary for the purpose. A budget bill shall not be effective past July 1 of the year in which the next regular session takes place.

Budgetary control is maintained at the budget unit level as designated by the Legislature (i.e., function, major program area, program, or unit of organization).

Appropriations for the General Fund and Road Fund shall be based upon revenue estimates prepared by the Finance and Administration Cabinet and modifications made by the appropriations committee of the General Assembly. Official revenue estimates are not made for the other budgetary funds.

The Major Governmental funds, which have legally adopted annual budgets as part of the primary government, include the following: General, Transportation, Federal, and Agency Revenue.

The funds allotted for each purpose of expenditure shall be used for no other purpose, except when the head of any budget unit, with the approval of the Secretary of the Finance and Administration Cabinet, may transfer allotted funds from one purpose of expenditure to another within the budget unit. No revisions of the allotment schedule may provide for an allotment or allotments in excess of the amount appropriated to that budget unit in a joint budget resolution or for expenditure for any other purpose than specified in a joint budget resolution and a budget memorandum. However, budgetary funds except for that of the General Fund and the Transportation Fund may be amended in an amount up to the actual receipts (not to exceed 5%) by an Advice of Change Order from the Secretary of the Finance and Administration Cabinet. No supplemental appropriations were required during this fiscal year.

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year end for long-term construction contracts other than commitments of a continuing nature are reported as reservations of fund balance for subsequent year expenditures. All other encumbered and unencumbered appropriations lapse at the end of each fiscal year except in the Transportation Fund, which has a project length budget. Encumbrances are carried forward as revisions to appropriations.

The annual budget is prepared principally on the cash basis, which differs from generally accepted accounting principles (GAAP). A reconciliation between the budgetary basis and the GAAP basis is presented in the notes to the Required Supplemental Information section as follows.

Budgetary Basis vs. GAAP

Accounting principles applied for purposes of developing data on budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles. A schedule reconciling the fund balance on a cash basis at June 30, 2003, to the fund balance on a modified accrual basis follows :

(Expressed in Thousands)

Financial statement funds (same as budgetary funds)	GENERAL FUND	TRANSPORTATION FUND	FEDERAL FUND	AGENCY REVENUE FUND
Fund balance/retained earnings June 30, 2003:				
Budgetary basis	$ 281,485	$ 357,691	$ 85,027	$ 746,871
Adjustments:				
Accrued revenues	300,436	97,861	422,512	42,346
Accrued expenditures	(255,755)	(48,305)	(400,717)	(14,222)
Accrued transfers (net)	(6,423)		(25)	552
Total Accruals (1)	38,258	49,556	21,770	28,676
Reclassifications and other adjustments:				
Inventory balances (1)	8,001	28,664	64	1,829
To reclassify financial and other resources into financial statement fund types (2)	(12,407)	3,080	(66,425)	(448,432)
To record financial resources available as non-budgeted funds (3)	(17,000)			271
Fund Balance/Retained Earnings				
Fund balance/retained earnings June 30, 2003:				
GAAP Basis	$ 298,337	$ 438,991	$ 40,436	$ 329,215

(1) Basis differences
(2) Perspective differences
(3) Entity differences

Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments, the Commonwealth has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the Commonwealth expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for, under the modified approach, include 61,500 lane miles of roads and approximately 8,900 bridges that the Commonwealth is responsible to maintain.

In order to utilize the modified approach, the Commonwealth is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate, each year, the annual amount to maintain and preserve the assets at the condition level established and disclosed by the Commonwealth.
- Document that the assets are being preserved approximately at, or above, the established condition level.

Pavements

Measurement Scale

The Kentucky Transportation Cabinet (KYTC) uses numerous methods to determine the condition of roadway pavements; however, the Pavement Condition Index (PCI) serves as KYTC's primary method to measure and monitor pavement conditions. In use since the mid-1980s, the PCI for any particular pavement section is the mathematical difference between the current pavement smoothness and the acceptable pavement smoothness threshold based on traffic volumes. The corresponding pavement condition is based on the following PCI ranges:

Condition	PCI
Good	Greater than +0.4
Fair	Between 0.0 and 0.4
Poor	Less than 0.0

Established Minimum Condition Level

No more than 30% of the pavements shall be rated as "poor."

Assessed Conditions

The Commonwealth assesses pavement condition on a calendar year basis. The following table reports the percentage of pavements meeting ratings of "Good", "Fair", and "Poor" for the past five years.

Condition	2002	2001	2000	1999	1998
Good	48.30%	50.40%	51.70%	51.50%	55.90%
Fair	34.40%	29.00%	31.20%	30.80%	30.20%
Poor	17.30%	20.60%	17.10%	17.70%	13.80%

Bridges

Measurement Scale

KYTC utilizes the National Bridge Inspection Program to monitor the condition of the nearly 8,900 bridges under its jurisdiction. The National Bridge Inspection Program rates bridges, including the deck, superstructure and substructure, using a 0 to 9 point scale. The ratings are based on the following descriptions:

Rating	Description
9	Excellent.
8	Very good.
7	Good. Some minor problems.
6	Satisfactory. Structural elements show some minor deterioration.
5	Fair. All primary structural elements are sound but may have minor section loss, cracking, spalling or scour.
4	Poor. Advanced section loss, deterioration, spalling or scour.
3	Serious. Loss of section, deterioration, spalling, or scour have seriously affected primary structural components. Local failures are possible. Fatigue cracks in steel or shear cracks in concrete may be present.
2	Critical. Advanced deterioration of primary structural elements. Fatigue cracks in steel or shear cracks in concrete may be present or scour may have removed substructure support. Unless closely monitored, it may be necessary to close the bridge until corrective action is taken.
1	Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service.
0	Failure. Out of service; beyond corrective action.

Establishment Minimum Condition Level

No more than 7% of the bridges shall be rated as "structurally deficient."

Assessed Conditions

"Structurally deficient" results when a rating of 4 or worse is assessed to at least one of the major structural elements (e.g. the deck, superstructure, or substructure). The following table reports the percentage of bridges whose condition was assessed as "structurally deficient" in the stated year:

Calendar Year	Structurally Deficient
2002	5.20%
2001	5.30%
2000	4.90%
1999	4.90%
1998	5.10%

Estimated and Actual Costs to Maintain

The following table presents the Commonwealth's estimate of spending necessary to preserve and maintain the pavements, bridges, and maintenance condition at, or above, the "Established Condition Levels" cited above and the actual amount spent during the past three fiscal years (in millions):

	Roadways	Bridges	Total
Fiscal Year 2004:			
Estimated	$ 645.0	$ 100.0	$ 745.0
Fiscal Year 2003:			
Estimated	$ 601.7	$ 93.3	$ 695.0
Actual	$ 630.2	$ 93.8	$ 724.0
Fiscal Year 2002:			
Estimated	N/A	N/A	N/A
Actual	$ 576.1	$ 96.6	$ 672.7
Fiscal Year 2001:			
Estimated	N/A	N/A	N/A
Actual	N/A	N/A	$ 700.6

COMMONWEALTH OF KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
ENTITY RISK POOLS
CLAIMS DEVELOPMENT INFORMATION
FOR THE LAST TEN YEARS
(Expressed in Thousands)

State Workers' Compensation

	Fiscal and Policy Year Ended									
	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Earned Premiums	$ 14,052	$ 12,991	$ 14,470	$ 14,095	$ 16,121	$ 17,351	$ 17,026	$ 13,543	$ 13,628	$ 17,058
Administrative Expense	669	401	542	554	404	513	526	533	545	777
Incurred Claims as Originally Estimated	15,531	12,727	14,709	14,982	13,243	13,298	15,324	19,097	19,501	21,342
Claims Paid (Cumulative) as of:										
End of Fiscal Year	3,441	3,093	3,010	2,615	2,819	2,702	3,128	3,790	3,846	3,733
One Year Later	6,492	5,797	5,882	5,626	5,697	5,833	6,332	7,216	7,320	
Two Years Later	8,207	7,588	7,560	7,156	7,179	7,604	7,811	8,986		
Three Years Later	9,152	8,721	8,632	8,173	8,017	8,726	8,678			
Four Years Later	10,211	9,346	9,552	8,824	8,653	9,305				
Five Years Later	10,671	9,812	10,241	9,211	9,313					
Six Years Later	11,043	10,185	10,775	9,685						
Seven Years Later	11,441	10,695	11,190							
Eight Years Later	11,788	11,011								
Nine Years Later	12,102									
Re-estimation of Incurred Claims:										
End of Fiscal Year	15,531	12,727	14,709	14,982	13,243	13,298	15,324	19,097	19,501	21,392
One Year Later	15,277	12,883	14,502	13,006	12,876	13,623	16,584	19,315	20,171	
Two Years Later	16,075	13,266	14,519	12,627	13,473	15,543	16,033	19,186		
Three Years Later	15,324	13,526	14,021	12,762	14,416	15,617	16,188			
Four Years Later	15,230	13,797	14,507	14,270	14,492	15,486				
Five Years Later	14,424	14,028	15,345	14,050	15,000					
Six Years Later	14,503	14,405	15,350	14,657						
Seven Years Later	16,240	14,290	15,470							
Eight Years Later	16,303	14,304								
Nine Years Later	16,123									
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation at the End of the Most Recent Fiscal Year	772	1,563	641	(931)	1,249	2,320	709	218	1,699	

SOURCE: Compilation Report

OTHER SUPPLEMENTARY INFORMATION

COMBINING FINANCIAL STATEMENTS

NON-MAJOR GOVERNMENTAL FUNDS

DEBT SERVICE FUND

In the **Debt Service Fund,** the **Primary Government** accounts for the payment of principal, interest, and administrative fees due on general long-term issues of the Commonwealth and for the accumulation of financial resources used to make such payments.

The **Turnpike Authority of Kentucky** issues debt to acquire infrastructure, which is then leased to the Transportation Cabinet of the Commonwealth.

SPECIAL REVENUE FUNDS

The **Other Special Revenue Fund** accounts for revenues and expenditures of restricted taxes, fees, and charges related to a particular function or activity, but not usually appropriated by the General Assembly.

The **Turnpike Authority of Kentucky** issues debt to acquire infrastructure, which is then leased to the Transportation Cabinet of the Commonwealth.

The **Special Benefits Fund** accounts for other fiduciary monies that will be expended for designated operations.

COMMONWEALTH OF KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	Debt Service Funds	
	Primary Government	Turnpike Authority of Kentucky
Assets		
Cash and cash equivalents	$ 5,892	$ 60,373
Cash with fiscal agents	22,417	
Investments, net of amortization	7,940	147,404
Receivables, net		5,623
Notes receivable		
Interfund receivables	10,006	116,145
Inventories		
Total Assets	$ 46,255	$ 329,545
Liabilities and Fund Balances		
Liabilities:		
Accounts payable	$ 1	$ 4,958
Interfund payables	16,005	
Interfund loan payable		
Deferred revenue		
Total Liabilities	16,006	4,958
Fund Balances:		
Reserved for:		
Inventories		
Unreserved, reported in:		
Special revenue funds		
Debt service fund	30,249	324,587
Total Fund Balances	30,249	324,587
Total Liabilities and Fund Balances	$ 46,255	$ 329,545

Special Revenue Funds				Total Non-Major Governmental Funds
Other Special Revenue	Turnpike Authority of Kentucky	Special Benefits		
$ 419	$ 115,281	$ 57,309		$ 239,274
				22,417
108,056	57,197	83,633		404,230
96,173	4,751	21,967		128,514
6,536				6,536
111,982		63,324		301,457
52				52
$ 323,218	$ 177,229	$ 226,233		$ 1,102,480
$ 2,045	$ 86	$ 10,388		$ 17,478
192,312	116,145	4,068		328,530
		579		579
23,581	110	11,449		35,140
217,938	116,341	26,484		381,727
52				52
105,228	60,888	199,749		365,865
				354,836
105,280	60,888	199,749		720,753
$ 323,218	$ 177,229	$ 226,233		$ 1,102,480

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Debt Service Funds	
	Primary Government	Turnpike Authority of Kentucky
Revenues		
Taxes	$	$
Licenses, fees, and permits		
Intergovernmental		
Charges for services	7,691	
Fines and forfeits		
Interest and other investment income	1,020	20,050
Increase (decrease) in fair value of investments	(4)	
Other revenues	2	13,169
Total Revenues	8,709	33,219
Expenditures		
Current:		
General government		
Legislative and judicial		
Commerce		
Education and humanities		
Human resources		
Justice		
Natural resources and environmental protection		
Public protection and regulation		
Transportation		
Debt service:		
Principal retirement	139,887	121,090
Interest and fiscal charges	128,507	66,619
Other expenditures	(800)	4,953
Total Expenditures	267,594	192,662
Excess (Deficiency) of Revenues over (under) Expenditures	(258,885)	(159,443)
Other Financing Sources (Uses)		
Transfers in	266,660	177,840
Transfers out		
Payments to refunded bond escrow agent	(1,567)	
Total Other Financing Sources (Uses)	265,093	177,840
Net Change in Fund Balances	6,208	18,397
Fund Balances at July 1, as Restated	24,041	306,190
Increase (Decrease) in Inventory		
Fund Balances at June 30	$ 30,249	$ 324,587

Special Revenue Funds			Total
Other Special Revenue	Turnpike Authority of Kentucky	Special Benefits	Non-Major Governmental Funds
$ 77,522	$	$ 92	$ 77,614
948		3,675	4,623
784		14,982	15,766
15,959		50,535	74,185
14,253		2,357	16,610
12,276	4,065	7,038	44,449
2,296		1,371	3,663
48,783	3,165	34,752	99,871
172,821	7,230	114,802	336,781
67,272	49,620	69,555	186,447
133			133
4,110			4,110
444		41,126	41,570
152		25,933	26,085
		94	94
1,360		7,130	8,490
		22,637	22,637
		44,693	44,693
			260,977
			195,126
			4,153
73,471	49,620	211,168	794,515
99,350	(42,390)	(96,366)	(457,734)
203,062	170,898	168,059	986,519
(376,812)	(177,839)	(106,875)	(661,526)
			(1,567)
(173,750)	(6,941)	61,184	323,426
(74,400)	(49,331)	(35,182)	(134,308)
179,682	110,219	234,931	855,063
(2)			(2)
$ 105,280	$ 60,888	$ 199,749	$ 720,753

SCHEDULE OF FUND ACTIVITIES

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES BY SOURCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed In Thousands)

Revenues by Source		June 30, 2003
Taxes:		
Sales and gross receipts	$	2,580,706
Income:		
Individual		2,763,768
Corporations		283,436
Property		490,281
Coal severance		172,356
Licenses and privileges		150,836
Inheritance and estate		96,730
Miscellaneous		3,516
Total Taxes		6,541,629
Licenses, fees, and permits		25,459
Intergovernmental		136,694
Charges for services		7,452
Fines and forfeits		49,567
Interest and other investment income		10,030
Increase (decrease) in fair value of investments		(83)
Other revenues		144,236
Total Revenues by Source	$	6,914,984

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed In Thousands)

	June 30, 2003
General Government:	
Cabinet for General Government:	
Personal services	$ 114,641
Utilities, rentals, and other services	11,821
Commodities and supplies	6,107
Grants and subsidies	1,188,274
Capital outlay	393
Travel	1,863
Judgments and contingent liabilities	41
Total Cabinet for General Government	1,323,140
Finance and Administration Cabinet:	
Personal services	19,436
Utilities, rentals, and other services	4,364
Commodities and supplies	22,673
Grants and subsidies	51,238
Capital Outlay	55
Travel	216
Judgments and contingent liabilities	5,823
Interest paid on short term debt	15,227
Total Finance and Administration Cabinet	119,032
Revenue Cabinet:	
Personal services	70,686
Utilities, rentals, and other services	18,898
Commodities and supplies	1,040
Capital Outlay	198
Travel	355
Judgments and contingent liabilities	(5,474)
Total Revenue Cabinet	85,703
Personnel Cabinet:	
Personal services	1,171
Utilities, rentals, and other services	138
Commodities and supplies	19
Travel	3
Total Personnel Cabinet	1,331
Total General Government	1,529,206
Legislative and Judicial:	
Personal services	158,923
Utilities, rentals, and other services	53,544
Commodities and supplies	9,930
Grants and subsidies	3,354
Capital outlay	3,208
Travel	3,098
Total Legislative and Judicial	232,057
Commerce:	
Economic Development Cabinet:	
Personal services	6,492
Utilities, rentals, and other services	779
Commodities and supplies	289
Grants and subsidies	2,414
Capital Outlay	52
Travel	111
Total Economic Development Cabinet	10,137

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed In Thousands)

	June 30, 2003
Tourism Cabinet:	
Personal services	$ 5,884
Utilities, rentals, and other services	992
Commodities and supplies	288
Grants and subsidies	1,703
Travel	111
Total Tourism Cabinet	8,978
Total Commerce	19,115
Education and Humanities:	
Education and Humanities Cabinet:	
Personal services	64,100
Utilities, rentals, and other services	9,329
Commodities and supplies	2,740
Grants and subsidies	2,841,063
Capital outlay	538
Travel	2,748
Total Education and Humanities Cabinet	2,920,518
Workforce Development Cabinet:	
Personal services	26,208
Utilities, rentals, and other services	2,890
Commodities and supplies	4,079
Grants and subsidies	17,555
Capital outlay	977
Travel	405
Total Workforce Development Cabinet	52,114
Total Education and Humanities	2,972,632
Human Resources:	
Cabinet for Families and Children:	
Personal services	71,268
Utilities, rentals, and other services	25,681
Commodities and supplies	1,525
Grants and subsidies	250,042
Capital Outlay	2,057
Travel	4,320
Judgments and contingent liabilities	696
Total Cabinet for Families and Children	355,589
Health Services Cabinet:	
Personal services	86,051
Utilities, rentals, and other services	3,791
Commodities and supplies	7,651
Grants and subsidies	923,099
Capital outlay	236
Travel	668
Judgments and contingent liabilities	(35,336)
Total Cabinet for Health Services	986,160
Total Human Resources	1,341,749

Continued

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed In Thousands)

	June 30, 2003
Justice:	
Personal services	$ 264,658
Utilities, rentals, and other services	31,991
Commodities and supplies	22,649
Grants and subsidies	123,759
Capital outlay	7,242
Travel	2,338
Judgments and Contingent Liabilities	6,343
Total Justice Cabinet	458,980
Natural Resources and Environmental Protection:	
Personal services	48,206
Utilities, rentals, and other services	4,034
Commodities and supplies	2,919
Grants and subsidies	1,856
Capital outlay	608
Travel	396
Total Natural Resources and Environmental Protection	58,019
Public Protection and Regulation:	
Public protection and regulation cabinet:	
Personal services	35,738
Utilities, rentals, and other services	2,647
Commodities and supplies	619
Grants and subsidies	5,132
Capital outlay	255
Travel	936
Total Public Protection and Regulation Cabinet	45,327
Labor Cabinet:	
Personal services	1,923
Utilities, rentals, and other services	161
Commodities and supplies	(81)
Travel	97
Total Labor Cabinet	2,100
Total Public Protection and Regulation	47,427
Transportation:	
Personal services	1,014
Commodities and supplies	69
Grants	5,328
Total Transportation	6,411
Total Expenditures	$ 6,665,596

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES AND EXPENDITURES BY TYPE
TRANSPORTATION FUND
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed In Thousands)

	June 30, 2003
Revenues:	
Licenses, fees and permits	$ 108,396
Taxes	963,757
Charges for services	22,653
Fines and forfeits	4
Interest and other investment income	29,270
Increase (decrease) in fair value of investments	4,769
Other revenues	4,295
Total Revenues	1,133,144
Expenditures:	
Transportation:	
General administration and support	76,424
Motor vehicle regulation	26,840
Justice - state police	35,004
Highways	904,815
Other	21,321
Total Expenditures	1,064,404
Excess of Revenues over (under) Expenditures	68,740
Other financing sources (uses):	
Operating transfers in	1,645
Operating transfers out	(184,601)
Total Other Financing Sources (Uses)	(182,956)
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	(114,216)
Fund Balance at July 1, as Restated	554,303
Increase (decrease) in inventories	(1,096)
Fund Balance at June 30	$ 438,991

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INTERNAL SERVICE FUNDS

Internal Service Funds account for the financing of goods and services provided on a cost reimbursement basis by one agency of the Commonwealth to other state agencies of governments. Kentucky uses the following Internal Service Funds:

Fleet Management Fund accounts for expenses incurred and reimbursements received by the Transportation Cabinet for the management and maintenance of the State's motor vehicle fleet.

Computer Services Fund accounts for expenses incurred and reimbursements received by the Governor's Office for Technology for computer and related data processing services.

Prison Industries Fund accounts for expenses incurred and reimbursements received by the Department of Corrections' industrial prison operations.

Central Printing Fund accounts for expenses incurred and reimbursements received by the Finance and Administration Cabinet's Division of Printing.

Property Management Fund accounts for expenses incurred and reimbursements received by the Finance and Administration Cabinet's space rental and maintenance operation.

Risk Management Fund accounts for the self-insurance operations of the State which include:

Fire and Tornado Insurance Program accounts for monies received by the Department of Insurance from State agencies and expended for insuring State property against loss from fires, tornadoes, etc.

State Workers' Compensation Program accounts for monies received by the Personnel Cabinet from State agencies and expended for claims of job related injuries to State employees.

Transportation Cabinet's Self-Insured Workers' Compensation Trust Program provides workers' compensation insurance for the employees of the Transportation Cabinet.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF FUND NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	Fleet Management	Computer Services	Prison Industries
Assets			
Current assets:			
Cash and cash equivalents	$ 364	$ 1,094	$ 192
Receivables, net	4	256	568
Interfunds receivable	689	849	335
Inventories	55	261	2,504
Prepaid expenses		2,634	
Total Current Assets	1,112	5,094	3,599
Noncurrent assets:			
Investments, net	5,660	12,879	671
Land			725
Improvements other than buildings		356	
Buildings		6,939	3,831
Machinery and equipment	80,043	36,535	3,938
Less: Accumulated depreciation	(49,762)	(34,238)	(4,251)
Construction in progress			25
Total Capital Assets	30,281	9,592	4,268
Total Noncurrent Assets, Net	35,941	22,471	4,939
Total Assets	37,053	27,565	8,538
Liabilities			
Current liabilities:			
Accounts payable	105	2,985	228
Judgments payable		13	
Interfund payables	8	701	8
Claims liability			
Capital lease obligations		663	
Compensated absences		2,144	296
Deferred revenue		1,199	
Total Current Liabilities	113	7,705	532
Noncurrent liabilities:			
Claims liability			
Capital lease obligations		910	
Compensated absences		2,132	233
Total Noncurrent Liabilities		3,042	233
Total Liabilities	113	10,747	765
Net Assets			
Invested in capital assets, net of related debt	30,281	8,018	4,269
Unrestricted	6,659	8,800	3,504
Total Net Assets	$ 36,940	$ 16,818	$ 7,773

Central Printing	Property Management	Risk Management	Totals June 30, 2003
$ 24	$ 137	$ 940	$ 2,751
16	14	161	1,019
205	284	29	2,391
278			3,098
		2,336	4,970
523	435	3,466	14,229
376	2,130	11,551	33,267
	6,458		7,183
	2,807		3,163
	220,491		231,261
2,284	1,543		124,343
(1,899)	(101,835)		(191,985)
	8,701		8,726
385	138,165		182,691
761	140,295	11,551	215,958
1,284	140,730	15,017	230,187
172	568	1,209	5,267
			13
26	355	108	1,206
		16,745	16,745
72			735
136	560	31	3,167
48	135		1,382
454	1,618	18,093	28,515
		101,870	101,870
82			992
151	441	21	2,978
233	441	101,891	105,840
687	2,059	119,984	134,355
233	138,154		180,955
364	517	(104,967)	(85,123)
$ 597	$ 138,671	$ (104,967)	$ 95,832

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Fleet Management	Computer Services	Prison Industries
Operating Revenues:			
Charges for services	$ 25,228	$ 56,617	$ 14,453
Other revenues	161	98	4
Total Operating Revenues	25,389	56,715	14,457
Operating Expenses:			
Personnel services	1,481	31,971	4,052
Utilities, rentals, and other services	2,536	19,231	719
Commodities and supplies	6,973	3,412	7,775
Grants and subsidies		29	918
Depreciation and amortization	9,933	2,383	215
Travel		270	66
Reinsurance expense			
Claims expense		(34)	
Total Operating Expenses	20,923	57,262	13,745
Operating Income (Loss)	4,466	(547)	712
Nonoperating Income (Expenses):			
Gain (loss) on sale of fixed assets	411	2	(3)
Interest and other investment income	(62)	(100)	(11)
Increase (decrease) in fair value of investments	99	279	12
Interest expense	(44)	(111)	
Other revenues (expenses)			
Total Nonoperating Revenues and Expenses	404	70	(2)
Income (Loss) before Capital Contributions and Transfers	4,870	(477)	710
Capital Contributions			
Transfers in		3,325	20
Transfers out	(6,000)	(377)	(1,164)
Change in Net Assets	(1,130)	2,471	(434)
Net Assets at July 1, as Restated	38,070	14,347	8,207
Net Assets at June 30	$ 36,940	$ 16,818	$ 7,773

Central Printing	Property Management	Risk Management	Totals June 30, 2003
$ 3,553	$ 25,432	$ 27,974	$ 153,257
	3	73	339
3,553	25,435	28,047	153,596
2,065	10,856	2,588	53,013
1,088	11,382	5,928	40,884
641	1,349	15	20,165
			947
87	5,063		17,681
	83	38	457
		495	495
		24,950	24,916
3,881	28,733	34,014	158,558
(328)	(3,298)	(5,967)	(4,962)
1	(45)		366
(5)	(19)	303	106
6	37	76	509
(9)			(164)
		6	6
(7)	(27)	385	823
(335)	(3,325)	(5,582)	(4,139)
	14,724		14,724
306	10,520	40	14,211
	(2,674)	(4,709)	(14,924)
(29)	19,245	(10,251)	9,872
626	119,426	(94,716)	85,960
$ 597	$ 138,671	$ (104,967)	$ 95,832

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Fleet Management	Computer Services	Prison Industries
Cash Flows from Operating Activities			
Cash received from customers - public	$	$ 1,036	$ 1,928
Cash received from customers - state	24,700	57,888	11,941
Cash payments to suppliers for goods and services	(9,919)	(24,135)	(8,269)
Cash payments for employee salaries and benefits	(1,481)	(32,918)	(4,136)
Cash payments for claims expense			
Cash payments from other sources	161	69	
Cash payments to other sources			(914)
Net Cash Provided by Operating Activities	13,461	1,940	550
Cash Flows from Noncapital Financing Activities			
Transfers from other funds		3,325	20
Transfers to other funds	(6,000)	(377)	(1,164)
Net Cash Provided by Noncapital Financing Activities	(6,000)	2,948	(1,144)
Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets	(7,830)	(3,092)	(104)
Principal paid on revenue bond maturities and equipment contracts	(2,683)	(645)	
Interest paid on revenue bonds and equipment contracts	(44)	(111)	
Proceeds from the sale of capital assets	2,429	2	
Net Cash Used for Capital and Related Financing Activities	(8,128)	(3,846)	(104)
Cash Flows from Investing Activities			
Purchase of investment securities		(2,873)	
Proceeds from the sale of investment securities	555		432
Interest and dividends on investments	36	179	1
Net Cash Used in Investing Activities	591	(2,694)	433
Net Increase (Decrease) in Cash and Cash Equivalents	(76)	(1,652)	(265)
Cash and Cash Equivalents at July 1	440	2,746	457
Cash and Cash Equivalents at June 30	$ 364	$ 1,094	$ 192
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income (loss)	$ 4,466	$ (547)	$ 712
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	9,933	2,383	215
Miscellaneous nonoperating income (expense)			
Change in assets and liabilities:			
(Increase) Decrease in assets:			
Receivables, net	(4)	73	(447)
Interfund receivables	(524)	2,348	432
Inventories	316	18	533
Prepaid expenses		128	
Increase (decrease) in liabilities:			
Accounts payable	(566)	(1,328)	(315)
Interfund payables	(160)	(345)	7
Claims liability			
Compensated absences		(677)	(18)
Deferred revenue		(113)	(569)
Net Cash Provided by Operating Activities	$ 13,461	$ 1,940	$ 550
Noncash Investing, Capital, and Financing Activities			
Change in fair value of investments	$ 99	$ 279	$ 12
Contributions of capital assets			
Total Noncash Investing, Capital, and Financing Activities	$ 99	$ 279	$ 12

Central Printing	Property Management	Risk Management	Totals June 30, 2003
$ 18	$ 412	$	$ 3,394
3,576	25,066	27,404	150,575
(1,830)	(12,867)	(4,547)	(61,567)
(2,096)	(10,990)	(2,790)	(54,411)
		(22,662)	(22,662)
	2	79	311
		(116)	(1,030)
(332)	1,623	(2,632)	14,610
306	10,519	40	14,210
	(2,674)	(4,709)	(14,924)
306	7,845	(4,669)	(714)
(128)	(9,074)		(20,228)
			(3,328)
(10)			(165)
			2,431
(138)	(9,074)		(21,290)
	(398)		(3,271)
150		6,166	7,303
1	18	379	614
151	(380)	6,545	4,646
(13)	14	(756)	(2,748)
37	123	1,696	5,499
$ 24	$ 137	$ 940	$ 2,751
$ (328)	$ (3,298)	$ (5,967)	$ (4,962)
87	5,063		17,681
		6	6
(7)	(14)	(29)	(428)
24	83	44	2,407
54			921
		(62)	66
(181)	(493)	(1,244)	(4,127)
26	355	62	(55)
		4,534	4,534
(31)	(51)	24	(753)
24	(22)		(680)
$ (332)	$ 1,623	$ (2,632)	$ 14,610
$ 6	$ 37	$ 76	$ 509
	14,724		14,724
$ 6	$ 14,761	$ 76	$ 15,233

CAPITAL ASSETS

COMMONWEALTH OF KENTUCKY
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS BY SOURCE
JUNE 30, 2003
(Expressed In Thousands)

	June 30, 2003
Governmental Funds Capital Assets	
Land	$ 89,342
Improvements other than buildings	6,002
Buildings	563,343
Machinery and equipment	373,920
Other intangibles	2,841
Easements	30,117
Construction in progress	2,364,712
Infrastructure	14,588,395
Total Governmental Funds Capital Assets	$ 18,018,672
Investments in Governmental Funds Capital Assets by Source	
General Fund	$ 112,636
Special Revenue Funds	1,977,045
Donations	86,903
Other	6,729
Capital Projects Fund:	
State appropriations	47,378
Revenue bonds	364,801
Federal grants	82,145
Other	15,004
Infrastructure (A)	14,588,395
Capital assets acquired prior to July 1, 1984 (A)	657,791
Capital assets acquired after July 1, 1984 (A)	79,845
Total Governmental Funds Capital Assets	$ 18,018,672

(1) Internal Service Funds are not included in this schedule. Internal Service Fund assets are included as governmental activities in the Statement of Net Assets.
(A) Capital assets with an undetermined funding source.

COMMONWEALTH OF KENTUCKY
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION AND ACTIVITY
JUNE 30, 2003
(Expressed in Thousands)

FUNCTION AND ACTIVITY	Land	Improvements Other Than Buildings	Buildings
General Government			
Cabinet for General Government (A)	$ 10,050	$ 2,572	$ 118,688
Revenue Cabinet			
Finance and Administration Cabinet	585		
Personnel Cabinet			
Total General Government	10,635	2,572	118,688
Legislative & Judicial	55		
Commerce			
Economic Development Cabinet	13,294		20,207
Tourism Cabinet	33,468	1,612	7,561
Total Commerce	46,762	1,612	27,768
Education & Humanities			
Education, Arts and Humanities Cabinet	653	118	25,518
Workforce Development Cabinet	1,020		14,343
Total Education and Humanities	1,673	118	39,861
Human Resources			
Cabinet for Families and Children (B)	432		501
Cabinet for Health Services	1,531	111	61,794
Total Human Resources	1,963	111	62,295
Justice	3,763	1,589	238,640
Natural Resources and Environmental Protection	14,743		1,117
Public Protection and Regulation			
Public Protection and Regulation Cabinet (A)			
Labor Cabinet			
Total Public Protection and Regulation			
Transportation	9,748		74,974
Total Governmental Funds Capital Assets	$ 89,342	$ 6,002	$ 563,343

(1) Internal Service Funds are not included in this schedule. Internal Service Fund assets are included as governmental activities in the Statement of Net Assets.
(A) Beginning balance for the Cabinet for General Government was restated to remove $121,(247) in assets for Council on Post Secondary Education, which is now reported as a non-major discretely presented component unit. Beginning balance for Public Protection and Regulation Cabinet was restated to remove $6,368,(066) in assets previously included in error. These assets are now reported as Internal Service Funds under Property Management.
(B) Fixed assets totaling $21,670,(087) were previously reported within Cabinet for Families and Children. Due to Reorganization (Executive Order 2002-759), these assets are now reported as Internal Service Funds under Property Management.

Machinery and Equipment	Software / Other Intangibles	Easements	Construction in Progress	Infrastructure	Totals June 30, 2003
$ 13,680	$	$ 17,328	$ 39,131	$	$ 201,449
9,993	969				10,962
8,192	1,872				10,649
1,748					1,748
33,613	2,841	17,328	39,131		224,808
10,487					10,542
284					33,785
17,810			462		60,913
18,094			462		94,698
9,182		7,295	26		42,792
23,573			244		39,180
32,755		7,295	270		81,972
6,744					7,677
8,845			3,217		75,498
15,589			3,217		83,175
86,276			165,935		496,203
30,871		5,494	465		52,690
4,066					4,066
2,378					2,378
6,444					6,444
139,791			2,155,232	14,588,395	16,968,140
$ 373,920	$ 2,841	$ 30,117	$ 2,364,712	$ 14,588,395	$ 18,018,672

COMMONWEALTH OF KENTUCKY
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION AND ACTIVITY
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Balance June 30, 2002 As Restated	Additions	Deductions	Balance June 30, 2003
General Government				
Cabinet for General Government (A)	$ 178,703	$ 37,423	$ 14,677	$ 201,449
Revenue Cabinet	7,958	3,216	212	10,962
Finance and Administration Cabinet	9,614	1,659	624	10,649
Personnel Cabinet	1,907	240	399	1,748
Total General Government	198,182	42,538	15,912	224,808
Legislative & Judicial	10,519	816	793	10,542
Commerce				
Economic Development Cabinet	33,785			33,785
Tourism Cabinet	58,551	4,019	1,657	60,913
Total Commerce	92,336	4,019	1,657	94,698
Education & Humanities				
Education Arts and Humanities Cabinet	39,864	4,049	1,121	42,792
Workforce Development Cabinet	36,186	3,782	788	39,180
Total Education and Humanities	76,050	7,831	1,909	81,972
Human Resources				
Cabinet for Families and Children (B)	8,094	1,132	1,549	7,677
Cabinet for Health Services	71,116	5,356	974	75,498
Total Human Resources	79,210	6,488	2,523	83,175
Justice	421,477	83,663	8,937	496,203
Natural Resources and Environmental Protection	51,192	4,063	2,565	52,690
Public Protection and Regulation				
Public Protection and Regulation Cabinet (A)	4,184	100	218	4,066
Labor Cabinet	2,483	50	155	2,378
Total Public Protection and Regulation	6,667	150	373	6,444
Transportation	16,382,540	1,501,903	916,303	16,968,140
Total Governmental Funds Capital Assets	$ 17,318,173	$ 1,651,471	$ 950,972	$ 18,018,672

(1) Internal Service Funds are not included in this schedule. Internal Service Fund assets are included as governmental activities in the Statement of Net Assets.
(A) Beginning balance for the Cabinet for General Government was restated to remove $121,(247) in assets for Council on Post Secondary Education, which is now reported as a non-major discretely presented component unit. Beginning balance for Public Protection and Regulation Cabinet was restated to remove $6,368,(066) in assets previously included in error. These assets are now reported as Internal Service Funds under Property Management.
(B) Fixed assets totaling $21,670,(087) were previously reported within Cabinet for Families and Children. Due to Reorganization (Executive Order 2002-759), these assets are now reported as Internal Service Funds under Property Management.

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

Pension trust funds account for monies received for and expenses incurred by the various public employee retirement systems administered by the State. Kentucky uses the following Pension Trust Funds:

Kentucky Employees Retirement System Fund accounts for revenues and expenses of the retirement system, which covers substantially all regular full-time employees of any State department, board or agency directed by Executive Order to participate in the System.

State Police Retirement System Fund accounts for the revenues and expenses of the retirement system, which covers substantially all regular full-time officers of the Kentucky State Police.

County Employees Retirement System Fund accounts for the revenues and expenses of the retirement system that covers substantially all regular full-time employees of each county, local school board, and additional local agencies electing to participate in the System.

Kentucky Teachers' Retirement System Fund accounts for the revenues and expenses of the retirement system, which covers substantially all persons occupying positions in the public elementary and secondary schools for which a certificate is required, faculty members of five regional universities, the Commissioner of Education and the professional staff members of the Department of Education.

Judicial Form Retirement System Fund accounts for the revenues and expenses of the retirement system that covers all District Judges, Judges of the Court of Appeals, and Judges of the Supreme Court.

Legislators' Retirement System Fund accounts for the revenues and expenses of the retirement system that covers all members of the General Assembly.

Deferred Compensation accounts for the monies withheld from employees, as an Internal Revenue Code Section 401 or 457 deferred compensation plan, by placing amounts with third party administrators and overseeing the investment activities of such monies.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	Kentucky Employees Retirement System	State Police Retirement System	County Employees Retirement System
Assets			
Cash and short-term investments:			
Cash	$ 581	$ 149	$ 979
Short-term investments	268,433	12,567	351,762
Total Cash and Short-Term Investments	269,014	12,716	352,741
Receivables:			
Investments - accounts receivable	208	12	323
Interest receivable	30,229	1,976	30,268
Accounts receivable	38,286	1,675	47,125
Total Receivables	68,723	3,663	77,716
Investments at fair value:			
Corporate and government bonds	1,937,776	125,035	1,915,720
Common stocks	3,308,908	232,616	3,384,044
Mortgages	273,115	16,970	269,920
Mutual funds			
Real estate	8,635	824	7,797
Total Investments at Fair Value	5,528,434	375,445	5,577,481
Invested security collateral	1,823,119	120,759	1,844,702
Capital assets, net	376	6	630
Prepaid expenses			
Total Assets	7,689,666	512,589	7,853,270
Liabilities			
Investments - accounts payable			
Accounts payable	4,122	177	5,299
Obligations under securities lending	1,823,119	120,759	1,844,702
Total Liabilities	1,827,241	120,936	1,850,001
Net Assets			
Net assets held in trust for:			
Employee retirement benefit	5,249,832	319,115	5,344,601
Retiree's health insurance	612,593	72,538	658,668
Total Net Assets	$ 5,862,425	$ 391,653	$ 6,003,269

Kentucky Teachers' Retirement System	Judicial Retirement System	Legislators' Retirement System	Deferred Compensation System	Totals June 30, 2003
$ 1,736	$ 7	$ 2	$ 126	$ 3,580
832,750	3,156	909		1,469,577
834,486	3,163	911	126	1,473,157
62,839	56	14		63,452
	1,422	343		64,238
54,063	55		2,986	144,190
116,902	1,533	357	2,986	271,880
	75,316	18,836		4,072,683
5,864,486	155,951	40,095		12,986,100
5,042,640				5,602,645
			895,968	895,968
358,281				375,537
11,265,407	231,267	58,931	895,968	23,932,933
776,714				4,565,294
3,634				4,646
197				197
12,997,340	235,963	60,199	899,080	30,248,107
2,220				2,220
9,764				19,362
776,714				4,565,294
788,698				4,586,876
12,043,105	235,963	60,199	899,080	24,151,895
165,537				1,509,336
$ 12,208,642	$ 235,963	$ 60,199	$ 899,080	$ 25,661,231

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Kentucky Employees Retirement System	State Police Retirement System	County Employees Retirement System
Additions			
Contributions:			
Employer	$ 96,137	$ 7,634	$ 173,241
Employee	148,677	4,674	161,504
Total Contributions	244,814	12,308	334,745
Investment income:			
Net increase (decrease) in fair value of investments	56,533	4,211	55,500
Interest	114,153	7,294	114,636
Dividends	54,069	3,801	54,611
Real estate operating income, net			
Securities lending income, net	16,434	1,090	21,381
Total Investment Income	241,189	16,396	246,128
Less: Investment expense	5,430	359	5,597
Less: Securities lending expense	14,026	922	18,223
Net Investment Income	221,733	15,115	222,308
Total Additions	466,547	27,423	557,053
Deductions			
Benefit payments	472,793	32,381	357,102
Refunds	8,418	97	12,007
Administrative expenses	5,783	117	9,392
Other deductions, net			
Total Deductions	486,994	32,595	378,501
Change in Net Assets	(20,447)	(5,172)	178,552
Net Assets Held in Trust			
Net Assets at July 1, as Restated	5,882,872	396,825	5,824,717
Net Assets at June 30	$ 5,862,425	$ 391,653	$ 6,003,269

Kentucky Teachers' Retirement System	Judicial Retirement System	Legislators' Retirement System	Deferred Compensation System	Totals June 30, 2003
$ 418,368	$ 2,811	$ 925	$	$ 699,116
284,148	2,241	374	109,278	710,896
702,516	5,052	1,299	109,278	1,410,012
142,549	(3,764)	(997)	7,854	261,886
276,524	4,497	1,038	14,257	532,399
99,217	1,930	526		214,154
31,207				31,207
9,812				48,717
559,309	2,663	567	22,111	1,088,363
4,119	195	4		15,704
9,226				42,397
545,964	2,468	563	22,111	1,030,262
1,248,480	7,520	1,862	131,389	2,440,274
817,112	8,933	1,892	80,052	1,770,265
9,959	51	23		30,555
10,060	171	141	1,545	27,209
112,174	636	382	14	113,206
949,305	9,791	2,438	81,611	1,941,235
299,175	(2,271)	(576)	49,778	499,039
11,909,467	238,234	60,775	849,302	25,162,192
$ 12,208,642	$ 235,963	$ 60,199	$ 899,080	$ 25,661,231

PRIVATE - PURPOSE TRUST FUNDS

Private-Purpose Trust Funds are used to report trust arrangements under which principal and interest benefit individuals, private organizations or other governments. Kentucky uses the following private-purpose trust funds:

The **Kentucky Educational Savings Plan Trust** was established by KRS 164A.310 to encourage citizens to invest funds for future educational use, and to create an endowment fund from which income will be available as participants' savings.

Kentucky's Affordable Prepaid Tuition Plan Trust was established by KRS 164A.700 as an instrument in providing affordable access to participating educational institutions for qualified beneficiaries. This program accepts prepayments of participating Kentucky citizens into the Commonwealth Postsecondary Education Prepaid Tuition Trust Fund and manages the monies. This investment produces a return equal to or greater than future college tuition rates so that a college education will be paid in the future for beneficiaries at today's prices.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	Kentucky Educational Savings Plan Trust	Kentucky's Affordable Prepaid Tuition Plan Trust	Totals June 30, 2003
Assets			
Cash and cash equivalents	$ 4	$ 4,633	$ 4,637
Investments, net of amortization	36,435	43,018	79,453
Receivables, net	205	35,613	35,818
Total Assets	36,644	83,264	119,908
Liabilities			
Accounts payable	101	7	108
Interfund loan payable		1,000	1,000
Other liabilities		91,870	91,870
Total Liabilities	101	92,877	92,978
Net Assets			
Restricted for:			
Plan participants	36,543		36,543
Unrestricted		(9,613)	(9,613)
Total Net Assets	$ 36,543	$ (9,613)	$ 26,930

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE-PURPOSE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Kentucky Educational Savings Plan Trust	Kentucky's Affordable Prepaid Tuition Plan Trust	Totals June 30, 2003
Additions			
Contributions	$ 11,168	$ 35,025	$ 46,193
Total Contributions	11,168	35,025	46,193
Investment income:			
Net increase (decrease) in fair value of investments		2,323	2,323
Interest	1,663	789	2,452
Total Investment Income	1,663	3,112	4,775
Less: Investment expense		97	97
Net Investment Income	1,663	3,015	4,678
Other additions	1	104	105
Total Additions	12,832	38,144	50,976
Deductions			
Benefit payments	1,732		1,732
Refunds		254	254
Administrative expense		1,400	1,400
Other deductions, net		39,670	39,670
Total Deductions	1,732	41,324	43,056
Change in Net Assets	11,100	(3,180)	7,920
Net Assets Held In Trust			
Net Assets at July 1	25,443	(6,433)	19,010
Net Assets at June 30	$ 36,543	$ (9,613)	$ 26,930

AGENCY FUNDS

Agency Funds account for monies held by the Commonwealth for custodial purposes only. Kentucky uses the following Agency Funds:

Commonwealth Choice accounts for flexible benefits spending accounts.

County Fees Fund accounts for monies held by the Commonwealth for those counties with a population greater than 75,000.

Special Deposit Trust Fund accounts for monies held by the Commonwealth and are marked for specific purposes such as employee withholdings.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
JUNE 30, 2003
(Expressed in Thousands)

	Commonwealth Choice Program	County Fees Trust Fund	Special Deposit Trust Fund	Totals June 30, 2003
Assets				
Cash and cash equivalents	$	$ 181	$ 95,308	$ 95,489
Cash with fiscal agents	4,992			4,992
Investments, net of amortization			157,452	157,452
Receivables, net		6,248	501	6,749
Interfund receivables			93	93
Total Assets	$ 4,992	$ 6,429	$ 253,354	$ 264,775
Liabilities				
Accounts payable	$	$	$ 101,232	$ 101,232
Interfund payables			9,149	9,149
Amounts held in custody for others	4,992	6,429	142,973	154,394
Total Liabilities	$ 4,992	$ 6,429	$ 253,354	$ 264,775

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Balances July 1, 2002	Additions	Deductions	Balances June 30, 2003
COMMONWEALTH CHOICE PROGRAM				
Assets				
Cash with fiscal agents	$ 22,864	$ 10,678	$ 28,550	$ 4,992
Total assets	$ 22,864	$ 10,678	$ 28,550	$ 4,992
Liabilities				
Amounts held in custody for others	$ 22,864	$ 10,678	$ 28,550	$ 4,992
Total liabilities	$ 22,864	$ 10,678	$ 28,550	$ 4,992
COUNTY FEES TRUST FUND				
Assets				
Cash & cash equivalents	$	$ 181	$	$ 181
Accounts Receivable		6,248		6,248
Total assets	$	$ 6,429	$	$ 6,429
Liabilities				
Amounts held in custody for others	$	$ 6,429	$	$ 6,429
Total liabilities	$	$ 6,429	$	$ 6,429
SPECIAL DEPOSIT TRUST FUND				
Assets				
Cash & cash equivalents	$ 85,900	$ 709,852	$ 700,444	$ 95,308
Investments	113,926	157,452	113,926	157,452
Accounts receivable	4,962	501	4,962	501
Interfund receivables	2,705	93	2,705	93
Total assets	$ 207,493	$ 867,898	$ 822,037	$ 253,354
Liabilities				
Interfund payables	$ 2,314	$ 9,149	$ 2,314	$ 9,149
Accounts payable	143,023	101,232	143,023	101,232
Amounts held in custody for others	62,156	722,359	641,542	142,973
Total liabilities	$ 207,493	$ 832,740	$ 786,879	$ 253,354
ALL AGENCY FUNDS				
Assets				
Cash & cash equivalents	$ 85,900	$ 710,033	$ 700,444	$ 95,489
Cash with fiscal agents	22,864	10,678	28,550	4,992
Investments	113,926	157,452	113,926	157,452
Accounts receivable	4,962	6,749	4,962	6,749
Interfund receivables	2,705	93	2,705	93
Total assets	$ 230,357	$ 885,005	$ 850,587	$ 264,775
Liabilities				
Interfund payables	$ 2,314	$ 9,149	$ 2,314	$ 9,149
Accounts payable	143,023	101,232	143,023	101,232
Amounts held in custody for others	85,020	739,466	670,092	154,394
Total liabilities	$ 230,357	$ 849,847	$ 815,429	$ 264,775

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NON-MAJOR COMPONENT UNITS - AUTHORITIES

Kentucky River Authority **-** responsible for the maintenance of the Commonwealth's locks and dams on the Kentucky River.

Bluegrass State Skills Corporation **-** established to improve and promote the employment opportunities of the citizens of the Commonwealth by assisting the Economic Development Cabinet in creating and expanding programs of skill, training and education.

Kentucky State Fair Board **-** accounts for the revenues earned and expenses incurred in the commercial operations of the State Fair Board.

Kentucky Center for the Arts Corporation - established by the General Assembly to promote the growth and development of the arts, convention trade, tourism and hotel industries within Jefferson County and the Commonwealth. The Center has the responsibility of maintaining, operating and insuring the Kentucky Center for the Arts building.

Kentucky Educational Television Authority **-** established by KRS 168.030 to produce and transmit educational television programming to the citizens of the Commonwealth.

Kentucky Economic Development Finance Authority - established in 1958 under KRS Chapter 154 to promote industrial development, and authorized to issue industrial revenue bonds that do not constitute a legal or moral obligation of the Commonwealth.

Kentucky Council on Postsecondary Education – established in 1997 by the Postsecondary Education Improvement Act to coordinate changes and improvements within Kentucky's postsecondary education system.

Kentucky Infrastructure Authority - established in 1988 by KRS 224A.030, and amended, to assume all powers, duties and obligations of the Kentucky Pollution Abatement and Water Resources Finance Authority in assisting governmental agencies within the Commonwealth in constructing and acquiring infrastructure projects.

Kentucky Agricultural Finance Corporation - created by the 1984 General Assembly to "improve and promote the health, welfare and prosperity of the people of the Commonwealth through stimulation of existing agricultural ventures." This corporation helps banks and other financial institutions assist eligible farmers in receiving low interest loans through the issuance of tax-exempt agricultural revenue bonds.

Kentucky Grain Insurance Corporation - provides protection to grain producers in the event of the failure of a grain dealer or grain warehouseman.

Kentucky Local Correctional Facilities Construction Authority - created in 1982 pursuant to Sections 441.605 through 441.695 of the KRS to provide an additional and alternative method for constructing, improving, repairing, and financing regional and local jail facilities.

Kentucky Access **-** provides healthcare to Kentucky's qualifying applicants who are at high risk.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS - AUTHORITIES
JUNE 30, 2003
(Expressed in Thousands)

	Kentucky River Authority	Bluegrass State Skills Corporation	Kentucky State Fair Board	Kentucky Center for the Arts Corporation	Kentucky Educational Television Authority
Assets					
Current assets:					
Cash and cash equivalents	$ 6,567	$	$ 7,583	$ 1,521	$ 1,358
Restricted cash					
Investments, net of amortization					
Accounts receivable, net	360	358	2,230	643	2,061
Interest receivable	53			21	3
Inventories					722
Prepaid expenses			619	367	
Other current assets					392
Total Current Assets	6,980	358	10,432	2,552	4,536
Noncurrent assets:					
Restricted cash			188		
Long-term investments, net			3,362	1,637	5,280
Long-term receivables					4,220
Deferred charges					1,081
Land	441		14,073	129	76
Improvements other than buildings	83				
Buildings			234,028	31,571	12,289
Machinery and equipment	418		5,337	13,656	41,661
Other capital assets	12,880		356		
Less: Accumulated depreciation and amortization	(3,870)		(98,868)	(26,182)	(33,833)
Construction in progress			9,800		56
Total Capital Assets	9,952		164,726	19,174	20,249
Total Noncurrent Assets	9,952		168,276	20,811	30,830
Total Assets	16,932	358	178,708	23,363	35,366
Liabilities					
Current liabilities:					
Accounts payable	199	200	1,159	866	1,104
Current portion of long-term debt:					
Notes payable					253
Bonds payable					
Capital lease obligations			60		
Compensated absences	29	33	862	145	779
Claims liability					
Deferred revenues			3,378	430	177
Other current liabilities					
Total Current Liabilities	228	233	5,459	1,441	2,313
Noncurrent liabilities:					
Notes payable					263
Bonds payable					
Capital lease obligations			109		
Compensated absences	45				734
Total Noncurrent Liabilities	45		109		997
Total Liabilities	273	233	5,568	1,441	3,310
Net Assets					
Invested in capital assets, net of related debt	9,952		164,370	19,174	20,130
Restricted for:					
Other purposes	4,160		3,550	422	8,125
Unrestricted	2,547	125	5,220	2,326	3,801
Total Net Assets	$ 16,659	$ 125	$ 173,140	$ 21,922	$ 32,056

Kentucky Economic Development Finance Authority	Council on Post-secondary Education	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation	Kentucky Local Correctional Facilities Construction Authority	Kentucky Access	Totals June 30, 2003
$ 17,795	$ 113	$ 81,728	$	$ 234	$ 2,063	$ 21,735	$ 140,697
	1,327						1,327
12,053		51,609					63,662
24	2,784	22,098		91	895	5,232	36,776
293	1,189	1,801			115	1,708	5,183
							722
	1,017						2,003
11,819		532		17			12,760
41,984	6,430	157,768		342	3,073	28,675	263,130
					3,495		3,683
15,363	22,260	98,588		3,647			150,137
40,599	234	364,444			5,626		415,123
		2,113			448		3,642
							14,719
							83
							277,888
	121	84					61,277
							13,236
	(52)	(50)					(162,855)
							9,856
	69	34					214,204
55,962	22,563	465,179		3,647	9,569		786,789
97,946	28,993	622,947		3,989	12,642	28,675	1,049,919
14	3,035	391			363	294	7,625
							253
		15,356			1,940		17,296
							60
	410						2,258
						5,531	5,531
						837	4,822
163		2,147					2,310
177	3,445	17,894			2,303	6,662	40,155
							263
		198,910			28,670		227,580
							109
	150						929
	150	198,910			28,670		228,881
177	3,595	216,804			30,973	6,662	269,036
	69						213,695
	23,549					22,013	61,819
97,769	1,780	406,143		3,989	(18,331)		505,369
$ 97,769	$ 25,398	$ 406,143	$	$ 3,989	$ (18,331)	$ 22,013	$ 780,883

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - AUTHORITIES
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Kentucky River Authority	Bluegrass State Skills Corporation	Kentucky State Fair Board	Kentucky Center for the Arts Corporation	Kentucky Educational Television Authority
Expenses:					
Operating and other expenses	$ 1,781	$ 2,812	$ 37,432	$ 8,855	$ 25,762
Depreciation				1,702	
Total expenses	1,781	2,812	37,432	10,557	25,762
Program Revenues:					
Charges for services	1,409		34,766	3,023	4,219
Operating grants and contributions	162			1,335	6,508
Capital grants and contributions				1,349	
Total Program Revenues	1,571		34,766	5,707	10,727
Net Program (Expense) Revenue	(210)	(2,812)	(2,666)	(4,850)	(15,035)
General Revenues:					
Unrestricted grants and contributions			(1,871)	506	
Unrestricted investment earnings	102		61	22	92
Gain on sale of capital assets				(3)	
Miscellaneous general	338	2,691	3,406	3,300	14,781
Total General Revenues	440	2,691	1,596	3,825	14,873
Change in Net Assets	230	(121)	(1,070)	(1,025)	(162)
Net Assets at July 1, as Restated	16,429	246	174,210	22,947	32,218
Net Assets at June 30	$ 16,659	$ 125	$ 173,140	$ 21,922	$ 32,056

Kentucky Economic Development Finance Authority	Council on Post-secondary Education	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation	Kentucky Local Correctional Facilities Construction Authority	Kentucky Access	Totals June 30, 2003
$ 20,508	$ 128,526	$ 26,737	$ 513	$	$ 18,301	$ 15,986	$ 287,213
							1,702
20,508	128,526	26,737	513		18,301	15,986	288,915
2,229	925	12,543			5,404	9,631	74,149
	5,949	39,571			57	28,646	82,228
	529						1,878
2,229	7,403	52,114			5,461	38,277	158,255
(18,279)	(121,123)	25,377	(513)		(12,840)	22,291	(130,660)
							(1,365)
676	13		(4)	209			1,171
						2,510	2,507
	91,345	15,441				(56,000)	75,302
676	91,358	15,441	(4)	209		(53,490)	77,615
(17,603)	(29,765)	40,818	(517)	209	(12,840)	(31,199)	(53,045)
115,372	55,163	365,325	517	3,780	(5,491)	53,212	833,928
$ 97,769	$ 25,398	$ 406,143	$	$ 3,989	$ (18,331)	$ 22,013	$ 780,883

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR COMPONENT UNITS-AUTHORITIES
FOR THE YEAR ENDED JUNE 30, 2003
(Expressed in Thousands)

	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation	Totals June 30, 2003
Cash Flows from Operating Activities			
Cash received from customers - public	$	$ 6	$ 6
Cash payments to other sources	(513)		(513)
Net Cash Provided by Operating Activities	(513)	6	(507)
Cash Flows from Investing Activities			
Purchase of investment securities		(223)	(223)
Interest and dividends on investments	(4)	209	205
Net Cash Used in Investing Activities	(4)	(14)	(18)
Net Increase (Decrease) in Cash and Cash Equivalents	(517)	(8)	(525)
Cash and Cash Equivalents at July 1	517	242	759
Cash and Cash Equivalents at June 30	$	$ 234	$ 234
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income (loss)	$ (513)	$	$ (513)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Increase (decrease) in liabilities:			
Accounts payable		6	6
Net Cash Provided by Operating Activities	$ (513)	$ 6	$ (507)
Noncash Investing, Capital, and Financing Activities			
Change in fair value of investments	$ (4)	$ 29	$ 25
Total Noncash Investing, Capital, and Financing Activities	$ (4)	$ 29	$ 25

NON-MAJOR COMPONENT UNITS - UNIVERSITIES

UNIVERSITY AND COLLEGE

The University and College Funds account for all transactions relating to the State supported universities and the community colleges and technical schools. These institutions maintain their own financial records and are not part of the central accounting system operated by the Finance and Administration Cabinet. The non-major component units-universities are:

Eastern Kentucky University
Western Kentucky University
Morehead State University
Murray State University
Northern Kentucky University
Kentucky State University

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS - UNIVERSITIES AND COLLEGES
JUNE 30, 2003
(Expressed in Thousands)

	Eastern Kentucky University	Western Kentucky University	Morehead State University
Assets			
Current assets:			
Cash and cash equivalents	$ 37,671	$ 31,838	$ 8,854
Restricted cash	248		
Investments, net of amortization	5,493		
Accounts receivable, net	14,593	8,713	8,317
Interest receivable	450	751	
Inventories	455	1,485	1,675
Prepaid expenses	41	125	
Other current assets		721	497
Total Current Assets	58,951	43,633	19,343
Noncurrent assets:			
Restricted cash		29,269	
Long-term investments, net	2,604	9,480	34,217
Long-term receivables	5,288	4,794	3,181
Land	4,995	4,587	11,259
Improvements other than buildings	9,967	10,573	
Buildings	204,435	115,448	152,582
Machinery and equipment	43,000	51,520	33,192
Other capital assets	32,466		
Less: Accumulated depreciation and amortization	(144,663)	(107,514)	(105,854)
Construction in progress	9,606	65,139	3,332
Total Capital Assets	159,806	139,753	94,511
Other assets		427	15,330
Total Noncurrent Assets, Net	167,698	183,723	147,239
Total Assets	226,649	227,356	166,582
Liabilities			
Current liabilities:			
Accounts payable and accruals	10,051	6,403	5,891
Current portion of long-term debt:			
Notes payable		148	110
Bonds payable	5,430	2,605	2,400
Capital lease obligations	950	762	472
Compensated absences	2,573	2,358	
Claims liability		1,445	
Deferred revenues	4,469	26,441	1,841
Payable from restricted assets		1,305	
Other current liabilities	753	1,017	720
Total Current Liabilities	24,226	42,484	11,434
Noncurrent liabilities:			
Notes payable		1,836	460
Bonds payable	36,055	15,695	25,795
Capital lease obligations	24,030	2,001	1,890
Compensated absences			
Other long-term liabilities		31,621	4,843
Total Noncurrent Liabilities	60,085	51,153	32,988
Total Liabilities	84,311	93,637	44,422
Net Assets			
Invested in capital assets, net of related debt	93,500	85,266	78,714
Restricted for:			
Debt service	7,092	3,862	
Other purposes	30,770	25,260	26,509
Unrestricted	10,976	19,331	16,937
Total Net Assets	$ 142,338	$ 133,719	$ 122,160

Murray State University	Northern Kentucky University	Kentucky State University	Totals June 30, 2003
$ 21,252	$ 25,185	$ 4,011	$ 128,811
	2,533		2,781
		3,666	9,159
3,902	2,642	3,705	41,872
887	765		2,853
1,874	221	100	5,810
586	1,160		1,912
716	54	11	1,999
29,217	32,560	11,493	195,197
26,276	18,386		73,931
16,289	3,200	13,702	79,492
3,942	2,071	585	19,861
6,350	3,791	1,255	32,237
8,313	5,387	3,128	37,368
153,970	172,621	95,236	894,292
41,311	39,531	9,585	218,139
			32,466
(116,496)	(91,502)	(82,564)	(648,593)
13,228	6,249	11,563	109,117
106,676	136,077	38,203	675,026
939	336	7,110	24,142
154,122	160,070	59,600	872,452
183,339	192,630	71,093	1,067,649
5,437	7,279	1,618	36,679
700	111		1,069
2,083	4,395	2,025	18,938
163	1,997		4,344
3,290	1,446	1,030	10,697
1,141			2,586
11,688	4,308	1,623	50,370
	2,533		3,838
460	733	526	4,209
24,962	22,802	6,822	132,730
12,316	238		14,850
15,332	32,455	9,270	134,602
1,703	28,459		58,083
		461	461
191	4,232	605	41,492
29,542	65,384	10,336	249,488
54,504	88,186	17,158	382,218
85,105	64,415	34,017	441,017
3,587			14,541
23,019	24,778	19,541	149,877
17,124	15,251	377	79,996
$ 128,835	$ 104,444	$ 53,935	$ 685,431

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - UNIVERSITIES AND COLLEGES
JUNE 30, 2003
(Expressed in Thousands)

	Eastern Kentucky University	Western Kentucky University	Morehead State University	Murray State University	Northern Kentucky University	Kentucky State University	Totals June 30, 2003
Expenses:							
Operating and other expenses	$ 175,878	$ 177,056	$ 102,564	$ 121,106	$ 114,958	$ 52,337	$ 743,899
Interest on long-term debt		1,262					1,262
Total Expenses	175,878	178,318	102,564	121,106	114,958	52,337	745,161
Program Revenues:							
Charges for services	46,374	65,098	33,351	46,224	52,020	12,422	255,489
Operating grants and contributions	65,181	23,730	28,834	17,209	17,793	12,770	165,517
Capital grants and contributions					1,621	1,191	2,812
Total Program Revenues	111,555	88,828	62,185	63,433	71,434	26,383	423,818
Net Program (Expense) Revenue	(64,323)	(89,490)	(40,379)	(57,673)	(43,524)	(25,954)	(321,343)
General Revenues:							
Unrestricted grants and contributions		26,433		4,996	45,258	914	77,601
Unrestricted investment earnings	1,195	1,157	651	1,218	1,318	1,270	6,809
Gain on sale of capital assets	(3,893)	1,526		(930)	426		(2,871)
Miscellaneous general	69,137	81,274	46,169	53,984	(1,479)	23,835	272,920
Total General Revenues	66,439	110,390	46,820	59,268	45,523	26,019	354,459
Change in Net Assets	2,116	20,900	6,441	1,595	1,999	65	33,116
Net Assets at July 1, as Restated	140,222	112,819	115,719	127,240	102,445	53,870	652,315
Net Assets at June 30	$ 142,338	$ 133,719	$ 122,160	$ 128,835	$ 104,444	$ 53,935	$ 685,431

STATISTICAL SECTION

The **Statistical Section** gives report users a better historical perspective of financial information that may assist in assessing current financial status and trends of the Commonwealth. In addition, certain demographic and economic data have been presented that will allow a broader understanding of the economic and social environment in which the State Government operates.

COMMONWEALTH OF KENTUCKY
REVENUES BY SOURCE
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

SOURCE	1994	1995	1996	1997
Taxes:				
Sales & Gross Receipts	$ 2,539,066	$ 2,739,653	$ 2,873,176	$ 3,018,770
Individual Income	1,870,096	1,964,960	2,080,418	2,201,574
Corporation Income	269,048	340,913	289,508	291,536
Property	370,200	386,389	409,175	440,973
License & Privilege	114,052	137,578	130,778	145,178
Severance	181,340	177,826	185,019	185,744
Inheritance & Estate	76,173	79,531	82,673	93,962
Miscellaneous	120,036	117,077	104,819	109,451
Total Taxes	5,540,011	5,943,927	6,155,566	6,487,188
Intergovernmental Revenue	2,657,925	3,307,139	3,394,888	3,625,241
Charges for Services	192,659	222,309	277,165	262,366
Licenses, Fees & Permits	134,161	160,975	163,331	164,557
Fines & Forfeitures	38,563	40,720	40,485	48,538
Interest & Investments	90,931	112,124	148,908	155,878
Other Income	93,683	133,506	133,524	193,206
Total Non-Tax Income	3,207,922	3,976,773	4,158,301	4,449,786
Total Revenues	$ 8,747,933	$ 9,920,700	$ 10,313,867	$ 10,936,974

NOTE: Governmental Fund Types include the General Fund, Special Revenue Funds, Capital Projects Fund and the Debt Service Fund.

COMMONWEALTH OF KENTUCKY
EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

FUNCTIONS	1994	1995	1996	1997
General Government	$ 452,593	$ 418,256	$ 494,599	$ 593,500
Legislative & Judicial	128,575	132,421	147,563	150,604
Commerce	37,656	42,430	42,704	44,408
Education & Humanities	2,663,797	2,835,220	2,962,449	3,076,843
Human Resources	3,077,162	3,818,430	3,819,907	4,208,762
Justice	232,221	255,424	282,999	340,100
Natural Resources and Environmental Protection	105,920	110,509	96,094	103,356
Public Protection and Regulation	79,816	86,411	94,124	105,763
Transportation	843,456	980,083	1,061,589	1,092,563
Capital Outlay	79,707	82,040	79,245	99,702
Debt Service	357,122	416,756	392,130	332,127
Total Expenditures	$ 8,058,025	$ 9,177,980	$ 9,473,403	$ 10,147,728

SOURCE: Commonwealth of Kentucky Comprehensive Annual Financial Report
NOTE: Governmental Fund Types include the General Fund, Special Revenue Funds, Capital Projects Fund and the Debt Service Fund.

1998	1999	2000	2001	2002	2003
$ 3,167,442	$ 3,255,990	$ 3,546,343	$ 3,609,499	$ 3,699,098	$ 3,653,169
2,390,823	2,538,948	2,701,349	2,768,302	2,681,443	2,763,769
338,354	312,579	307,939	288,418	211,382	283,436
405,528	424,471	440,438	457,216	480,890	492,507
162,122	170,480	139,922	146,422	120,902	166,222
187,126	173,094	169,154	177,774	187,588	177,868
105,550	79,168	76,751	83,267	89,753	96,784
114,903	120,765	3,390	3,203	3,653	143,857
6,871,848	7,075,495	7,385,286	7,534,101	7,474,709	7,777,612
3,809,686	3,825,985	4,602,881	4,208,631	4,821,756	5,093,078
289,555	298,952	359,782	426,173	506,924	548,226
170,454	188,304	203,608	200,239	308,209	252,123
47,265	53,024	49,986	54,297	54,169	73,691
191,986	140,328	163,893	232,100	201,933	149,146
218,883	185,881	230,325	616,361	406,869	506,272
4,727,829	4,692,474	5,610,475	5,737,801	6,299,860	6,622,536
$ 11,599,677	$ 11,767,969	$ 12,995,761	$ 13,271,902	$ 13,774,569	$ 14,400,148

1998	1999	2000	2001	2002	2003
$ 652,980	$ 556,913	$ 541,008	$ 672,605	$ 2,036,798	$ 1,889,243
165,645	186,168	212,978	216,608	239,515	246,838
45,953	49,927	52,941	51,283	58,741	62,486
3,187,712	3,250,456	3,351,422	3,442,741	3,584,412	3,752,918
4,253,354	4,368,927	5,109,752	5,110,365	5,563,087	5,650,039
402,149	451,532	511,106	553,499	564,427	575,237
112,923	120,938	125,724	127,048	143,924	135,349
115,479	130,245	131,350	124,725	120,764	139,299
1,135,102	1,356,322	1,502,356	1,588,052	1,724,061	1,695,652
135,106	266,165	225,409	309,011	483,145	244,419
438,029	357,698	302,708	410,058	337,546	460,256
$ 10,644,432	$ 11,095,291	$ 12,066,754	$ 12,605,995	$ 14,856,420	$ 14,851,736

DESCRIPTION OF TAX SOURCES - ALL GOVERNMENTAL FUND TYPES

JUNE 30, 2003

SALES AND USE - On July 1, 1960, Kentucky became the 34th state to enact a sales and use tax. Although the tax was broad based at the time of its inception, the sales and use tax has been significantly eroded over the years with the passage of numerous exemptions. This has been partially offset with rate increases in 1968 (3% to 5%) and 1990 (5% to 6%), and expansion of the tax base in 1985 to cover leases and rentals of tangible personal property. Effective January 1, 2001, the sales tax base expanded to include interstate communications services. During fiscal year 2002 , the sales and use tax continued to be the second largest generator of General Fund revenue for the Commonwealth.

COAL SEVERANCE - Kentucky's coal severance tax became effective April 1, 1972, and was intended to replace a major portion of the revenue expected to be lost by the exemption of groceries from the sales tax. It was the first major severance tax among the states. The initial rate of 4% on the gross value of coal mined in Kentucky or thirty cents per ton, whichever is greater, was raised to 4.5% of the gross value of coal mined or fifty cents per ton, whichever is greater, in 1976. In 1978, the statutes were revised to include the taxation of coal processing and add a deduction from the gross value for the cost of transportation. A 1986 amendment provided that coal producing and coal impact counties were to receive a minimum of 10% of coal severance and processing taxes for FY 1986-87 and 12% for subsequent years. The percentage has increased over the years to a level of approximately 40% for FY 2001-02. The 2000 session of the General Assembly produced legislation that allowed for a tax credit of 2.25% to 3.75% of the gross value of coal produced from thin seams of coal from newly permitted production.

MOTOR FUELS - In 1920, Kentucky became the fifth state to adopt a gasoline tax. The initial rate of one cent per gallon reached five cents per gallon by 1926. Effective April 1, 1948, the tax per gallon was raised to seven cents, with two-seventh of the total set aside for rural and secondary roads. In 1952, the tax was expanded to include special fuels which were to be taxed at the same rate as gasoline. On July 1, 1972, the tax rate increased to nine cents per gallon. Effective July 1, 1980, the rate was changed to 9% of the weighted average wholesale tank wagon price for sale in Kentucky. In no case shall the average wholesale price be deemed to be less than one dollar and eleven cents per gallon, nor more than one dollar and fifty cents per gallon. On July 1, 1986, the tax on gasoline and LP gas was increased five cents per gallon and the tax on special fuels was increased two cents per gallon. The current total motor fuels tax rates are $.15 per gallon on gasoline and liquefied petroleum gas and $.12 per gallon on special fuels.

MOTOR VEHICLE USAGE TAX - Motor vehicles were originally taxed under the 3 percent gross receipts tax that was re-pealed in 1936. After repeal, a special 3 percent tax on motor vehicles was enacted. This tax is based on the "retail price" of the motor vehicles as defined by statute. The tax was increased to 5 percent on April, 1968 and to 6 percent on July 1, 1990. The tax is paid to the county clerk when a vehicle is first registered in the owner's name. The proceeds derived from the tax are deposited to the Road Fund for use in the construction and maintenance of Kentucky's roads and bridges.

MOTOR VEHICLE REGISTRATION - The 1936 General Assembly fixed a flat $4.50 registration fee (plus $.50 for the County Clerk) for passenger cars. Similar fees were enacted in 1938 for farm trucks and in 1944 for church buses, water well drillers, and certain wreckers. Truck licenses were changed to a graduated "gross weight" basis in 1964. The current $11.50 fee for passenger cars, farm trucks, and the lightest trucks was passed in 1968. Effective January 1, 1993 there was an additional $.50 added to cover the cost of reflectorizing plates (KRS 186.240(2)(c)). In 1973, all motor vehicle registration functions were transferred from the Department of Revenue to the Department of Transportation. The apportioned registration of commercial vehicles began April 1, 1974. Current rates for heavier trucks range from $24 (6,001-10,000 lbs.) to $1,250.50 (73,281-80,000 lbs.) with extended weight tags available for coal haulers.

INDIVIDUAL INCOME TAX - The individual income tax became effective for income earned during calendar year 1936 and produced its first revenue during fiscal year 1936-37. The initial rates ranged from 2% on the first $3,000 of income to 5% on all over $5,000. In 1950, a rate of 6% was imposed on income in excess of $8,000. In 1954, Kentucky became the fourth state to implement a withholding system and also adopted the federal definition of net income.

Currently, net income is computed using the Internal Revenue Code in effect on December 31, 2001 for tax years beginning after December 31, 2001, modified for Kentucky differences between federal and Kentucky tax laws. Primary differences include the tax treatment of pension income (excludable up to $39,400 in 2003) and interest on federal obligations.

Changes to the federal income tax law made after the Internal Revenue Code reference date of December 31, 2001 do not apply to Kentucky taxpayers unless adopted by the Kentucky General Assembly. The General Assembly has not adopted the provisions of the Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth and Tax Relief Reconciliation Act of 2003.

The rates applied to net income which remain unchanged since 1950 are: 2% of the first $3,000; 3% of the next $1,000; 4% of the next $1,000; 5% of the next $3,000; and 6% of the excess over $8,000. The personal tax credit of $20 went into effect in 1961 and a standard deduction of $650 was adopted in 1976. The 1996 General Assembly increased the standard deduction over a period of four years to

$1,700 for 2000. The standard deduction is indexed annually based on changes in the CPI-U and is currently set at $1,830 for 2003 . A low income tax credit of 5% to 100% for single persons or married couples with adjusted gross income of $25,000 or less was enacted in 1990. A child and dependent care credit equal to 20% of the Federal credit is also allowed.

CORPORATION INCOME TAX - The corporate income tax was enacted to first apply to calendar year 1936 income. The rate was 4% of net income assigned to Kentucky after deduction of federal income taxes. This rate was changed to 4.5% in 1950 and again to 5% of the first $25,000 of taxable income and 7% of all in excess thereof in 1956. In 1972, the federal tax deduction was removed and the state rate reduced to 4% of the first $25,000 and 5.8% on the excess. Tax rates beginning on January 1, 1980, were: first $25,000 at 3%; next $25,000 at 4%; next $50,000 at 5%; and the excess over $100,000 at 6%. The 1985 Special Session of the General Assembly passed the Kentucky Equity Tax Act (KETA) into law. KETA mandated a State depreciation system separate from the federal system. This new Kentucky system allowed corporate taxpayers to recover the entire cost of property through depreciation compared to recovery of 71% of cost using the Accelerated Cost Recovery System (ACRS) as adjusted for under prior Kentucky Law. KETA also added a new graduated rate of 7.25% of taxable income in excess of $250,000 of taxable income effective August 1, 1985.

The 1990 General Assembly replaced the Kentucky depreciation system with the depreciation and expense deductions allowed by Sections 168 and 179 of the Internal Revenue Code in effect on December 31, 1989, effective for property placed in service after December 31, 1989. The tax rates beginning on January 1, 1990 are: first $25,000 at 4%; next $25,000 at 5%; next $50,000 at 6%; next $150,000 at 7%; and all over $250,000 at 8.25%.

The 1994 General Assembly amended KRS 141.0101 to make Kentucky depreciation rules consistent with federal depreciation rules for all assets, regardless of when placed in service, effective for taxable years, beginning after December 31, 1993. To account for this change in depreciation rules, each taxpayer must determine the amount of any difference in Kentucky adjusted basis and federal adjusted basis (transition amount) as of the first day of the first taxable year beginning after December 31, 1993. The transition amount must be added to or subtracted from gross income in the first taxable year beginning after December 31, 1993, if the amount does not exceed $100,000 or in equal amounts over 4 years if the amount exceeds $100,000 or the taxpayer so elects.

The 1996 General Assembly amended KRS 141.120 to prohibit affiliated corporations from filing combined Kentucky income tax returns using the unitary business concept and allows affiliated corporations to elect to file consolidated Kentucky income tax returns, with such election being binding for 96 consecutive calendar months.

Effective for tax years beginning on or after January 1, 2002, net income is computed using the Internal Revenue Code in effect on December 31, 2001.

Changes to the federal income tax law made after the Internal Revenue Code reference date of December 31, 2001 do not apply to Kentucky taxpayers unless adopted by the Kentucky General Assembly. The General Assembly has not adopted the 30 percent federal bonus depreciation, five year net operating loss carryback and other provisions of the Job creation and Worker Assistance act of 2002. Also, the General Assembly has not adopted the 50 percent federal bonus depreciation and increase in the Section 179 election to expense deduction and other provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003.

PROPERTY TAX - Kentucky has levied a property tax since the creation of the state in 1792. Prior to 1934, the property tax was the State's major revenue source. In that year, an attempt to remove the tax on real estate was ruled unconstitutional. The tax rate was then reduced from 30 cents to 5 cents per $100 assessed value. The 1965 Special Session of the General Assembly further reduced the rate on real estate from five cents to 1.5 cents and on tangible property from 50 cents to 15 cents. House Bill 4, passed in the 1976 regular session of the General Assembly, established the power equalization program for school funding and raised the State tax rate on real property from 1.5 cents to 31.5 cents per $100 of assessed value and the tax rate on tangible personal property from 15 cents to 45 cents per $100 of assessed value. This increase in the State property tax rate was accompanied by a 30 cents per $100 of assessed value decrease in local school tax rates. The tax rate on intangible personal property, which is not subject to local rates, remained at 25 cents per $100. House Bill 44, enacted by the 1979 extraordinary legislative session, established a new rate setting mechanism which limited the increase in aggregate revenues for all taxing districts in general, and specifically limited the State rate for real estate to no greater than necessary to provide a 4% increase in revenue from year to year. As a result, the State tax rate on real property has dropped 58% from 31.5 cents per $100 in 1978 to 13.3 cents per $100 in 2003 .

The 1996 General Assembly repealed the bank shares property tax and enacted a bank franchise tax for state tax purposes and a local deposits franchise tax for local tax purposes. A discussion of the bank franchise tax follows.

INHERITANCE AND ESTATE TAX – Inheritance Tax is a tax on the right to receive property upon the death of the owner. The tax rates

and exemptions are based on the relationship of the beneficiary to the decedent. The Kentucky inheritance tax began in 1906 and taxed all beneficiaries other than nearest relatives. Beneficiaries taxed were given a $500 exemption. Many changes have been enacted over the years to the inheritance tax, however, the Kentucky estate tax that was enacted in 1936, has not been changed. The Kentucky estate tax is equal to the amount that the state death tax credit allowable under the federal estate tax law exceeds the total inheritance tax paid.

A major change was made in 1985 to the Kentucky inheritance tax when a surviving spouse was given an exemption of the total amount inherited. Effective for dates of death on or after July 1, 1995, the inheritance tax for parents, children (natural, step, or adopted), grandchildren, brothers (half or whole) and sisters (half or whole) was phased out over a four year period. The exemption during the phase-out period was the greater of the exemption permitted under the pre-July 1, 1995 law or a percentage of the inheritable interest. The inheritance tax for these beneficiaries was completely phased out for deaths that occurred after June 30, 1998. If the entire estate passes to exempt beneficiaries there may not be any Kentucky inheritance tax due, but there could be Kentucky estate tax due if the estate is large enough to require that a Federal Estate Tax Return be filed and a state death tax credit is allowed. Due to the repeal of the federal state death tax credit, the Kentucky estate tax will not apply to deaths occurring after December 31, 2004.

Other beneficiaries such as nieces, nephews, daughters-in-law, sons-in-law, great-grandchildren, cousins and relatives were not affected by the 1995 phase out of the inheritance tax. All transfers to educational, religious or other institutions whose sole purpose are to carry on charitable, educational, or religious work are exempt from the Kentucky inheritance tax.

PROVIDER TAX - House Bill 250, enacted during the 1994 Regular Session of the General Assembly, continued the Kentucky Health Care Provid-er Tax. The bill, which was effective July 15, 1994, imposed a 2.5% tax on gross revenues received by all providers of hospital services, a 2% tax on gross revenues received by other providers of specified health care items or services, and a 25 cent tax per outpatient prescription drug dispensed by pharmacies or other persons dispensing outpatient prescription drugs (KRS Chapter 142). The purpose of the Health Care Provider Tax is to help fund Kentucky's $2 billion Medicaid program. The Medicaid program is a joint federal-state medical assistance program that is operated and administered by the state. Approximately 25% of the funding for the program is provided by the state with the remaining 75% being funded by the federal government.

KRS Chapter 142 was amended in 1996 to phase out the health care provider tax on physician services. The rate is 1% for the period July 1, 1997, through June 30, 1998; and 0.5% for July 1, 1998, through June 30, 1999. The tax on physician services has been entirely removed as of July 1, 1999.

KRS Chapter 142 was amended in 1998 to phase out the tax on outpatient prescription drugs. The tax on outpatient prescription drugs will be reduced from 25 cents to 15 cents per prescription for the period July 1, 1999, through June 20, 2000. Effective July 1, 2000, the tax on outpatient prescription drugs expired.

BANK FRANCHISE TAX - House Bill 416 as enacted by the 1996 General Assembly created the bank franchise tax. The tax is imposed on any financial institution which obtains or solicits business from 20 or more persons within the Commonwealth or has receipts attributable to sources in the Commonwealth which equal or exceed $100,000. The bank franchise tax is based on a five-year average of net capital accounts reflected on the quarterly reports of condition filed with the applicable federal regulatory institution. The minimum tax is $300 per year. Because HB 416 is effective for the calendar year 1996, the first tax returns and payments were due on March 15, 1997.

Effective for tax years beginning after December 31, 1997, KRS 136.500 was amended in 1998 to define the term "Kentucky obligations" to mean all obligations of the Commonwealth of Kentucky, its counties, municipalities, taxing districts, and school districts, exempt from taxation under the Kentucky Revised Statutes and the Kentucky Constitution. The amendment allows as a deduction from capital an amount equal to the same percentage of total capital as the book value of Kentucky obligations bears to the book value of the total assets of the financial institution. Additionally, the quarterly averages of net capital and deductions for United States and Kentucky obligations will be divided by four, without regard to the actual existence of the financial institution.

COMMONWEALTH OF KENTUCKY
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
FOR CALENDAR YEARS 1993 - 2002
(Expressed in Thousands, Except Ratio Data)

For the Year Ended December 31	Real Property		Personal Property		Totals		Ratio of Total Assessed to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1993	$ 82,268,682	$ 89,422,480	$ 141,750,516	$ 141,750,516	$ 224,019,198	$ 231,172,996	96.9%
1994	89,570,464	95,287,728	153,225,083	153,225,083	242,795,547	248,512,811	97.7%
1995	94,579,246	100,616,219	161,791,401	161,791,401	256,370,647	262,407,620	97.7%
1996	101,534,494	108,015,419	152,832,983	152,832,983	254,367,477	260,848,402	97.5%
1997	109,108,366	116,072,730	126,697,051	126,097,051	235,805,417	242,169,781	97.4%
1998	116,105,606	123,516,602	135,870,575	135,870,575	251,976,181	259,387,177	97.1%
1999	124,798,246	132,764,091	138,392,876	138,392,876	263,191,122	271,156,967	97.1%
2000	134,604,823	143,196,620	141,579,703	141,579,703	276,184,525	284,776,323	97.0%
2001	144,947,137	154,199,082	148,966,508	148,966,508	293,913,645	303,165,590	96.9%
2002	153,302,566	163,087,836	177,842,026	177,842,026	331,144,592	340,929,862	97.1%

SOURCE: Kentucky Revenue Cabinet
NOTE: Assessed values are established through the utilization of an annual ad valorem tax based on the fair value of property.

COMMONWEALTH OF KENTUCKY
PROPERTY TAX LEVIES AND COLLECTIONS
FOR FISCAL YEARS 1993 - 2002
(Expressed in Thousands, Except Percentages)

For the Year Ended June 30	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy
1993	$ 374,257	$ 345,089	92.2%	$ 9,669	$ 354,758	94.8%
1994	392,652	357,996	91.2%	12,204	370,200	94.3%
1995	417,799	377,710	90.4%	17,615	395,325	94.6%
1996	424,505	391,977	92.3%	17,200	409,177	96.4%
1997	410,755	399,759	97.3%	15,099	414,858	101.0%
1998	365,014	349,774	95.8%	13,019	362,793	99.4%
1999	377,835	358,478	94.9%	11,927	370,405	98.0%
2000	402,428	371,715	92.4%	15,543	387,258	96.2%
2001	416,490	386,890	92.9%	20,605	407,495	97.8%
2002	429,425	407,380	94.9%	25,650	433,030	100.80%

SOURCE: Kentucky Revenue Cabinet
NOTE: Property taxes are assessed as of January 1 of each year in one of two ways: 1) by the 120 Property Valuation Administrators within the State, or 2) by the Revenue Cabinet. The tax rates are set by the various taxing jurisdictions and applied to the particular assessment. Tax bills are delivered by September 15 of each year. Also, the "Total Tax Levy" in this table has been re-specified for the years shown to adjust for the fact that the receipts for motor vehicles involve two different assessment years.

COMMONWEALTH OF KENTUCKY
RATIO OF GENERAL LONG-TERM BONDED DEBT
TO ASSESSED VALUE AND DEBT PER CAPITA
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands, Except Ratio and Per Capita Debt)

For the Year Ended June 30	Estimated Population		Assessed Value		General Long-Term Bonded Debt	General Bonded Debt Ratio to Assessed Value	General Bonded Debt Per Capita
1994	3,849		$ 242,795,547		$ 3,098,553	1.3%	$ 805
1995	3,887		256,370,647		3,133,332	1.2%	806
1996	3,920		254,367,477		3,134,342	1.2%	800
1997	3,953		235,805,417		3,133,332	1.3%	793
1998	3,985		251,976,181		2,833,433	1.1%	711
1999	4,018		263,191,122		2,178,683	0.8%	542
2000	4,049		276,184,525		2,315,533	0.8%	572
2001	4,069		293,913,645		2,944,839	1.0%	724
2002	4,093		331,144,592		3,405,046	1.0%	832
2003	4,168	Projected	344,200,000	ESTIMATED	3,165,223	0.9%	759

SOURCE: U.S. Department of Commerce, Bureau of the Census, provided by Kentucky Economic Development Cabinet.
NOTE: General long-term bonded debt includes adjustments to eliminate bonds accounted for by Proprietary Funds, State Universities, and adjustments to updated amortization schedules, bonds redeemed prior to scheduled maturity, and correction of maturity.

COMMONWEALTH OF KENTUCKY
RATIO OF ANNUAL DEBT SERVICE FOR GENERAL BONDED DEBT TO
TOTAL EXPENDITURES FOR GENERAL GOVERNMENTAL FUNCTIONS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands, Except Ratio Data)

For the Year Ended June 30	General Long - Term Debt Service	Total Expenditures	Ratio
1994	$ 357,122	$ 8,058,025	4.4%
1995	416,756	9,177,980	4.5%
1996	392,130	9,473,403	4.1%
1997	332,127	10,147,728	3.3%
1998	438,029	10,644,432	4.1%
1999	357,698	11,095,291	3.2%
2000	302,708	12,066,754	2.5%
2001	410,058	12,605,995	3.3%
2002	416,619	14,856,420	2.8%
2003	460,256	14,851,736	3.1%

SOURCE: Commonwealth of Kentucky Comprehensive Annual Financial Report.

COMMONWEALTH OF KENTUCKY
UNIVERSITY AND COLLEGE FUNDS REVENUE BOND COVERAGE
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands, Except Ratio Data)

Fiscal Year Ending June 30	Net Revenue Available For Debt Service	Debt Service Requirement	Coverage Ratio
1994	$ 198,130	$ 81,304	2.44%
1995	254,402	81,113	3.14%
1996	251,153	84,791	2.96%
1997	270,837	84,962	3.19%
1998	276,395	88,252	3.13%
1999	329,681	84,782	3.89%
2000	293,988	86,164	3.41%
2001	301,649	83,069	3.63%
2002	269,609	66,828	4.03%
2003	109,623	53,825	2.04%

SOURCE: Commonwealth of Kentucky Comprehensive Annual Financial reports; state universities' audited financial statements.

COMMONWEALTH OF KENTUCKY
DEMOGRAPHIC STATISTICS
FOR CALENDAR YEARS 1993-2002

For the Year Ended December 31	Estimated Population	Per Capita Income	Unemployment Rate
1993	3,812,206	$ 17,722	6.2%
1994	3,849,088	18,389	5.4%
1995	3,887,427	19,056	5.4%
1996	3,919,535	19,957	5.6%
1997	3,952,747	20,979	5.4%
1998	3,985,390	22,118	4.6%
1999	4,018,053	22,702	4.5%
2000	4,048,832	24,258	4.1%
2001	4,068,816	24,878	5.4%
2002	4,092,891	25,579	5.6%

SOURCE: U.S. Department of Commerce, Bureau of Census; U.S. Department of Commerce, Bureau of Economic Analysis; Kentucky Cabinet for Human Resources

COMMONWEALTH OF KENTUCKY
CONSTRUCTION AND BANK DEPOSITS
FOR CALENDAR YEARS 1993-2002
(Expressed in Thousands, Except Number of Units)

	Non-Residential Construction		Residential Construction		
For the Year Ended December 31	Number of Units	Value	Number of Units	Value	Bank Deposits
1993	8,952	$ 797,365	15,907	$ 1,172,971	$ 35,112,000
1994	10,024	801,728	18,554	1,370,011	37,352,000
1995	10,025	1,247,662	17,625	1,276,432	37,893,000
1996	See Note	See Note	18,778	1,484,079	39,769,000
1997	See Note	See Note	18,114	1,483,895	38,247,000
1998	See Note	See Note	20,640	1,730,505	39,921,000
1999	See Note	See Note	21,581	1,909,051	37,173,000
2000	See Note	See Note	18,460	1,767,181	39,497,000
2001	See Note	See Note	17,685	1,817,684	42,282,000
2002	See Note	See Note	19,459	2,080,766	40,092,000

SOURCE: U.S. Department of Commerce, Bureau of Census; Federal Deposit Insurance Corporation

NOTE: Beginning January 1996, the Bureau of Census, Building Permits Section has discontinued collection of Nonresidential Data due to budget reductions.

COMMONWEALTH OF KENTUCKY
SOURCES OF PERSONAL INCOME
FOR CALENDAR YEARS 1993-2002
(Expressed in Thousands, Except Percent Data)

Source	1993		1994		1995		1996		1997	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Farm	$ 1,038,066	2.1%	$ 1,062,592	2.1%	$ 651,984	1.2%	$ 1,005,924	1.7%	$ 1,089,030	1.9%
Agriculture Services, Forestry, Fisheries and Others	337,604	0.7%	319,445	0.6%	341,495	0.6%	343,124	0.6%	381,650	0.7%
Mining	1,426,899	2.8%	1,435,725	2.8%	1,322,910	2.4%	1,280,840	2.2%	1,285,732	2.2%
Manufacturing	10,274,871	20.5%	10,975,287	21.2%	11,424,900	21.0%	11,589,170	20.1%	12,115,301	21.0%
Construction	2,684,113	5.4%	2,875,033	5.6%	2,877,756	5.3%	3,076,508	5.3%	3,327,836	5.8%
Wholesale and Retail Trade	6,911,573	13.8%	7,355,968	14.2%	7,828,796	14.4%	8,196,534	14.2%	8,799,661	15.3%
Finance, Insurance and Real Estate	2,354,124	4.7%	2,330,102	4.5%	2,469,422	4.5%	2,638,070	4.6%	2,879,266	5.0%
Transportation and Public Utilities	3,321,852	6.6%	3,577,361	6.9%	3,702,916	6.8%	3,923,834	6.8%	4,139,689	7.2%
Services	9,951,554	19.9%	10,454,944	20.2%	11,128,883	20.4%	11,967,410	20.8%	12,756,524	22.1%
Government and Government Enterprises	9,389,110	18.7%	9,692,029	18.7%	10,032,371	18.4%	10,424,575	18.1%	10,820,753	18.8%
Earnings by Place of Work	$ 47,689,766	100.0%	$ 50,078,486	100.0%	$ 51,781,433	100.0%	$ 54,445,989	100.0%	$ 57,595,442	100.0%

Source	1998		1999		2000		2001		2002*	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Farm	$ 957,190	1.6%	$ 730,192	1.1%	$ 1,361,530	2.0%	$ 973,207	1.4%	$ 883,000	1.2%
Agriculture Services, Forestry, Fisheries and Others	423,380	0.7%	462,975	0.7%	502,305	0.7%	521,571	0.7%	521,000	0.7%
Mining	1,348,968	2.2%	1,350,661	2.1%	1,197,845	1.7%	1,332,006	1.9%	1,382,000	1.9%
Manufacturing	12,666,832	20.8%	13,373,527	20.7%	13,945,732	20.3%	13,636,163	19.3%	13,611,000	18.8%
Construction	3,612,018	5.9%	3,922,877	6.1%	4,196,268	6.1%	4,330,236	6.1%	4,276,000	5.9%
Wholesale and Retail Trade	9,356,004	15.3%	10,032,800	15.5%	10,537,792	15.3%	10,699,135	15.2%	11,088,000	15.3%
Finance, Insurance and Real Estate	3,102,800	5.1%	3,296,512	5.1%	3,690,749	5.4%	3,766,761	5.3%	4,034,000	5.6%
Transportation and Public Utilities	4,687,916	7.7%	5,005,048	7.7%	5,337,433	7.8%	5,495,944	7.8%	5,478,000	7.6%
Services	13,716,312	22.5%	14,716,433	22.8%	15,629,585	22.7%	16,507,154	23.4%	17,285,000	23.8%
Government and Government Enterprises	11,125,965	18.2%	11,770,589	18.2%	12,452,644	18.1%	13,218,964	18.8%	13,940,000	19.2%
Earnings by Place of Work	$ 60,997,385	100.0%	$ 64,661,614	100.0%	$ 68,851,883	100.0%	$ 70,481,141	100.0%	$ 72,498,000	100.0%

SOURCE: Kentucky Cabinet for Economic Development, Division of Research
NOTE: Percentages may not add to 100% due to rounding.
*2002 annual estimates computed with BEA table SQ5 by adding 4 quarters of 2002 and dividing by 4.

COMMONWEALTH OF KENTUCKY
TOP 10 MANUFACTURERS
(Ranked by Number of Employees)
2003

Company	Number of Plants	Number of Employees
Ford Motor Company	2	10,900
General Electric Company	11	8,299
Toyota Motor Corporation	3	8,723
Johnson Controls, Incorporated	14	4,076
Lexmark International Group	1	4,500
Dana Corporation	14	4,650
Toyota Tsusho	9	2,204
Emerson Electric Company	7	2,656
Alcan	7	2,632
Flynn Enterprises	7	2,394

SOURCE:
2002 Kentucky Directory of Manufacturers, Harris InfoSource in cooperation with the Kentucky Cabinet for Economic Development.

COMMONWEALTH OF KENTUCKY
SCHEDULE OF MISCELLANEOUS STATISTICS
JUNE 30, 2003

Adoption of Kentucky Constitution	1792
Form of Government	Legislative, Executive, Judicial
Land Area (square miles)	39,650
Miles of Highways, Roads and Streets	78,373
Police Protection:	
Statewide Jurisdiction	
Number of Kentucky State Police Posts	16
Number of Sworn Officers	941
Number of Other Statewide Agencies	7
Number of Officers	634
County Jurisdictions	
Number of Sheriffs	120
Number of Deputies	1,526
Number of County Departments	8
Number of County Officers	514
Local Jurisdictions	
Number of Departments	245
Number of Sworn Officers	3,493
College and Universities	
Number of Departments	8
Number of Sworn Officers	144
Other law Enforcement/Task Forces/Airport Security/ County Schools Security	
Number of Departments	12
Number of Sworn Officers	303
Higher Education:	
State Supported Universities and Community Colleges	
Number of Campuses	30
Number of Full-Time Instructional Faculty	6,513
Number of Students, Fall 2002	191,284
Private Colleges and Universities	
Number of Campuses	21
Number of Full-Time Instructional Faculty	1,351
Number of Students, Fall 2002	29,898
State Supported Recreation:	
Number of Resort Parks	17
Number of Recreation Parks	22
Number of Historic Sites	10
Area of State Parks (acres)	43,948
Number of 2002 Overnight Visitors	528,390
Permanent Full-Time Executive Branch Employees	36,484

SOURCES: Kentucky Revised Statutes
Kentucky Transportation Cabinet
Kentucky State Police
Kentucky Council on Post Secondary Education
Kentucky Department of Parks
Kentucky Personnel Cabinet

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